Office-Supreme Court, U.S.
FILED
JUL 28 1969
JOHN F. DAVIS, CLERK

IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1969

No. 398

COMPONENTS, INC., *Petitioner,*

v.

WESTERN ELECTRIC COMPANY, INCORPORATED
Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

GENE W. STOCKMAN
1000 Connecticut Avenue, N. W.
Washington, D. C. 20036
Attorneys for Petitioner
Components, Inc.

INDEX

	Page
The Opinion Below	1
Jurisdiction	1
Questions Presented	2
Statement of the Case	2
The Consent Decree	4
The Pre-Litigation Activities of Components and Western	5
Western's State Court Action Against Components	8
Components' Application for a Determination of Reasonable Royalties by the Decree Court	8
Appellate Proceedings	14
The Position of the United States	18
Reasons Why the Writ Should Be Granted	19
Conclusion	25

LIST OF AUTHORITIES CITED

Cases:

American Securit Co. v. *Shatterproof Glass Corp.*, 268 F. 2d 769 (3 Cir. 1959)	8, 17
Compco Corp. v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964)	22
Knuth v. *Erie-Crawford Dairy Coop. Association*, 395 F. 2d 420 (3 Cir. 1968)	4
Lauritzen v. *Larsen*, 345 U.S. 571 (1953)	23
Lear, Inc. v. *John S. Adkins*, — S. Ct. —, 162 USPQ 1 (June 16, 1969)	17, 22
McNutt v. *General Motors Acceptance Corp.*, 298 U.S. 178, 80 L. Ed. 1135 (1936)	11, 24
Melo-Sonics Corp. v. *Cropp*, 342 F. 2d 856 (3 Cir. 1965)	3, 24
Montana-Dakota Utilities Co. v. *Northwestern P.S.C.*, 341 U.S. 246 (1951)	23
Mottolese v. *Kaufman*, 176 F. 2d 301 (2 Cir. 1949)	17
Romero v. *International Terminal Operating Co.*, 358 U.S. 354 (1959)	23
Sears, Roebuck & Co. v. *Stiffel*, 376 U.S. 225 (1964)	17, 22
Sola Electric Co. v. *Jefferson Electric Co.*, 317 U.S. 173 (1942)	17

	Page
Sperry v. *Florida*, 373 U.S. 379 (1963)	17
United States v. *ASCAP*, 331 F. 2d 117 (2 Cir. 1964)	19
United States v. *Employing Plasterers Ass'n.*, 347 U.S. 186 (1954)	4, 24
United States v. *Libbey-Owens-Ford Glass Co.*, 1955 CCH Trade Cases ¶68207 (N.D.-Ohio 1955)	17
Walter, Clark & Sons, Inc. Application of 392 U.S. 659 (1968)	15

Statutes:

15 U.S.C. §§ 1-3	4
15 U.S.C. § 4	4
28 U.S.C. 1254 (1)	1
35 U.S.C. 154	16

IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1969

No.

COMPONENTS, INC., *Petitioner*

v.

WESTERN ELECTRIC COMPANY, INCORPORATED
Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

Petitioner prays that a writ of certiorari issue reviewing the judgment of the Court of Appeals for the Third Circuit entered in the subject case on May 7, 1969.

THE OPINION BELOW

The opinion of the Court of Appeals for the Third Circuit (*infra*, p. 1a) is as yet unreported. The order of the District Court for the District of New Jersey (*infra*, p. 7a) is unreported. The judgment of the court below was entered on May 7, 1969, the day the opinion was rendered. A timely petition for rehearing was denied on June 6, 1969.

JURISDICTION

The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

QUESTIONS PRESENTED

1. Is the preemptive federal antitrust and patent policy as embodied in an antitrust consent decree subservient to rights asserted by the antitrust defendant solely under state law?

2. Are antitrust consent decrees to be fairly and reasonably construed in the paramount public interest or narrowly construed to accommodate the private interests of antitrust defendants?

3. May a federal district court, having exercised its jurisdiction to determine the merits of a claim asserted under an antitrust consent decree, thereafter dismiss the claim for "lack of jurisdiction" and concurrently deny discovery of the jurisdictional issue?

4. Is an application for reasonable royalty determination pursuant to the express provisions of an antitrust consent decree, when challenged as inadequate on its face, entitled to the presumption that its averments are true in the same manner as a complaint in an ordinary civil action?

STATEMENT OF THE CASE

Antitrust consent decrees routinely require the defendants to license their patents at nondiscriminatory reasonable royalties. To insure that this mandate is honored, these consent decrees provide for the determination of a reasonable royalty rate by the decree court upon application by a party unable to reach agreement with the antitrust defendant.

This case arises out of petitioner's (Components') unsuccessful effort to invoke the aid of the decree court in the determination of reasonable royalties pursuant to the literal terms of one of these consent decrees.[1] Ignoring the express provision of the decree by which respondent (Western) is "ordered and directed to grant . . . to *any* applicant who

---

[1] Components' "Motion . . . for Determination of Reasonable Royalties" is reproduced *infra*, pp. 10a-15a.

It also appears at pages 7 to 12 and 102 of the Appendix before the Third Circuit Court of Appeals which is hereinafter cited as "(App. —)".

shall make written application therefor at *any* time" (*infra*, p. 1a), the district court held that the decree "was not designed to be used in the manner that Components now urges" (*infra*, p. 8a). While thus exercising its jurisdiction to construe the decree, the district court dismissed Components' application summarily and without an evidentiary hearing "for lack of jurisdiction". And the district court concurrently denied Components' timely motion to take discovery and present evidence on the "jurisdictional" issue.

The court of appeals affirmed. To do so, the appellate court read into the decree a "jurisdictional" limitation which repudiates the decree's plain language. The appellate court *then* held petitioner's motion pleading deficient on its face for failure to include allegations specifically directed to this *new* "jurisdictional" limitation which the decree does not recite. Components' request on rehearing that the case be remanded to permit an amendment to the motion pleading responsive to the appellate court's "interpretation" of the decree to include an unexpressed jurisdictional limitation was summarily denied.

Both courts below, ignoring the federal preemption in the antitrust and patent fields, condoned Western's subversion of the consent decree by the institution of a state court action against petitioner for an "accounting" under an alleged "license agreement". Both courts refused to accept as proved the averments of Components' pleading that this so-called "license agreement" was "illegally consummated by Western . . . in derogation of" the consent decree, said agreement "being in fact but one of a plurality of license agreements so illegally consummated by Western" (Par. 2 as amended, *infra*, p. 11a).[2] Components' motion pleading was not accorded the same presumption of accuracy as is

[2] Components' motion pleading was dismissed "for lack of jurisdiction" on the face of its averments and without an evidentiary hearing. Accordingly, "all facts contained in the complaint and every inference fairly deducible therefrom . . . should be treated as admitted and proved, viewing the same in the light most favorable to the plaintiff". *Melo-Sonics Corp.* v. *Cropp*, 342 F. 2d 856, 858 (3 Cir. 1965). (Cont'd.)

afforded a complaint in an ordinary civil action under like circumstances.

The Consent Decree

The consent decree invoked by petitioner was entered January 24, 1956 by the United States District Court for the District of New Jersey in Civil Action 17-49, *United States of America* v. *Western Electric Company, Incorporated and American Telephone and Telegraph Company.*[3] The complaint in C.A. 17-49 was filed on January 14, 1949. It alleged violation of Sections 1, 2 and 3 of the Sherman Act (15 U.S.C. §§ 1-3) and sought injunctive relief under Section 4 of the Sherman Act (15 U.S.C. § 4).

Section X of the consent decree (*infra*, pp. 16a-21a), under which Components proceeded below, provides in relevant part:

> "(A) The defendants are each *ordered and directed to grant* or cause to be granted, to *any applicant* who shall make written application therefor at *any time* or from time to time, non-exclusive *licenses* under all claims of any, some or all existing and future Bell System patents . . . such licenses . . . (3) to be *at reasonable royalties* . . . but upon condition that the applicant shall grant to [Western] at reasonable royalties . . . [a cross-license under applicant's patents] . . .[4]
>
> • • • • •

---

[2] (Cont'd.)

Further, whether the averments be called "allegations of fact" or "mere conclusions of the pleader", "they must be taken into account in deciding whether a claim for relief is stated." *United States* v. *Employing Plasterers Ass'n.*, 347 U.S. 186, 188-189 (1954); *Knuth* v. *Erie-Crawford Dairy Coop. Association*, 395 F. 2d 420, 423 (3 Cir. 1968).

We accordingly quote as "facts" constituting the record below the averments of Components' motion pleading with appropriate reference to the paragraphs thereof.

[3] A copy of the consent decree captioned "Final Judgment" appears at App. 47-62. Section X is reproduced *infra*, p. 16a.

[4] We have emphasized the order in Section X(A) directing Western to grant licenses "to *any* applicant" "at *any* time" because the appellate opinion disqualifies Components as an applicant because of the *timing* of its request and otherwise circumscribes without reason the obligations of Western pursuant to Section X.

> "(B) Upon receipt of a written request for a license under the provisions of this Section [*i.e.*, "from *any applicant* . . . at *any time*"], . . . [Western] . . . shall advise the applicant in writing of the royalty, if applicable, which it deems reasonable therefor, . . . If the parties are unable to agree within ninety (90) days upon reasonable royalties or any other terms, the applicant . . . may apply to this Court for the determination of reasonable royalties and other terms. . . ."*

The licenses which Western is ordered to grant to "any applicant . . . at any time" by Sections X(A) and X(B) are subject to the further condition of Section X(C) that

> "(C) [Western is] enjoined and restrained from including in any license granted . . . any restriction or condition whatsoever limiting the exercise of the rights granted thereby except that the license may be personal and non-transferable and may be conditioned on (1) payment of a reasonable royalty, if applicable, which shall be non-discriminatory as between licensees whose licenses are granted subsequent to the date of this Final Judgment. . . ."

Section X(C) further provides:

> ". . . but the royalty provisions of agreements under which licenses are *exchanged* and royalties are adjusted or eliminated to reflect a *bona fide* estimate of the values of such licenses shall not be deemed to discriminate between licensees. . . ."

The Pre-Litigation Activities of Components and Western

Components is a small company organized early in 1960 for the purpose of manufacturing and selling solid electrolytic capacitors. To obtain freedom of action in the solid electrolytic capacitor industry, Components applied to Western for a license under Western's relevant patents. Extensive negotiations ensued. "At no time did Western Electric advise Components, Inc. of the provisions of Para-

* Unless otherwise indicated, all emphasis is added.

graph X(B) of the 'Final Judgment' [consent decree] . . . as it should have" (Par. 10).

These negotiations resulted in an alleged "license agreement" effective as of June 1, 1960. As Components' application to the district court (*infra*, pp. 11a-15a) states: Pursuant to this alleged "agreement", "Components, Inc. was granted the right to produce and sell 'solid electrolytic capacitors' as disclosed in certain pending patent applications hereinafter referred to as Western Electric applications. The license agreement provided for the payment by Components, Inc., to Western Electric of a [4½%] royalty based on the net selling price of such capacitors, said royalty, however, not becoming due and payable until a patent issued on the licensed applications" (Par. 2).[5]

"At the time the license agreement was consummated on June 1, 1960, Components, Inc. understood that the patent rights which were the subject of the license included all those essential for the commercial production of solid electrolytic capacitors. This understanding was a primary motivation to Components, Inc. to accept the agreement in question" (Par. 3).

"On July 14, 1958, Interference 89,529 was declared by the United States Patent Office between a Western Electric application of Haring et al which was subject to the June 1, 1960 license . . . and an application of Robinson, assignor to Sprague Electric Company", which interference "ultimately resulted in the allowance of a *generic* claim covering solid electrolytic capacitors in the Sprague Electric Co. (Robinson) application which issued as U.S. patent 3,066,247" (Par. 4). "Subsequently, a much more limited species claim . . . was allowed in a Western Electric application filed as a division of the aforementioned Western Electric Haring et al application, which [divisional application] issued as U.S. patent 3,093,883 on June 18, 1963. . . . [O]n January 19, 1965, a second U.S. patent 3,166,693 issued on

[5] Insofar as is known, Western has made no effort to collect the 4½% royalty except from Components in the aforementioned Delaware "accounting" action.

the actual Western Electric Haring et al patent application against which there had been an adverse decision rendered by the Patent Office in Interference No. 89,529 . . ." (Par. 4). "As a result of that interference proceeding, the license covered only the narrow species patents 3,093,883 and 3,166,693 which are dominated by the generic patent 3,066,247 issued to Sprague Electric Co." (Par. 4).

"Components, Inc. was thus forced on August 11, 1964 to accept a license from Sprague Electric Co. to practice the invention of the generic patent 3,066,247 requiring the payment of royalty at the rate of 2% of the net selling price of the electrolytic capacitors it produced" (Par. 5).

"[A]s a result of the interference proceedings, Components, Inc. did not receive what it bargained for in the negotiation of the aforementioned June 1, 1960 license agreement" (Par. 4). "Further, and in part as a result of the aforementioned interference, the validity of the Western Electric patents 3,093,883 and 3,166,693 is open to serious question. Thus the value of the residual patent property . . . subject to the . . . June 1, 1960 license . . . was seriously attenuated by the interference proceedings" (Par. 6).

"Tacitly acknowledging that the consideration which led to the consummation of the original June 1, 1960 license agreement . . . was not reasonable in view of the result of the aforementioned interference proceedings, Western Electric unilaterally advised Components, Inc. that the original royalty rate would be lowered" (Par. 7).[6] "Components,

---

[6] On December 4, 1963, Western wrote Components, stating:

"Re: Patent License Agreement between our companies effective as of June 1, 1960

"With respect to each solid electrolytic capacitor sold, leased or put into use on or after June 18, 1963 [the issue date of the first Western patent No. 3,093,883], on which royalty is payable by your company to Western under the above agreement, the royalty rate *is hereby reduced* to two and seven-tenths per cent (2.7%)." (App. 31)

On October 4, 1965, Western wrote Components, stating:

"Re: Patent License Agreement between our companies effective as of June 1, 1960 (Cont'd.)

Inc. has never accepted the reduced royalty rates as unilaterally proposed. . . . *Per contra,* Components, Inc. deeming the proposed royalties to be unreasonable, has been engaged in negotiations virtually continually since the issuance of patent 3,093,883 on June 18, 1963 in an attempt to reach agreement by compromise and settlement as to a reasonable royalty in the premises" (Par. 8).

Western's State Court Action Against Components

While the aforementioned negotiations were in progress and without notice to Components, Western filed "an action [C.A. 2820] for accounting" based on the alleged June 1, 1960 agreement in the Court of Chancery of the State of Delaware in and for New Castle County (Par. 9).

In view of the fact that "At no time did Western Electric advise Components, Inc. of the provisions of Paragraph X(B)" of the consent decree, this state court action was an obvious attempt by Western to subvert it. *Cf. American Securit Co.* v. *Shatterproof Glass Corp.,* 268 F. 2d 769, 772 (3 Cir. 1959).

Components' Application for a Determination of Reasonable Royalties by the Decree Court

Counsel retained by Components incident the state court litigation invited attention to the consent decree in Civil Action 17-49 which Western had failed to mention during the negotiation period. Upon advice of counsel, Components' motion for a determination of reasonable royalties was filed in the decree court. Paragraphs 1 and 2 of Components' motion alleged jurisdiction pursuant to Section

---

[6] (Cont'd.)

"With respect to each solid electrolytic capacitor sold, leased or put into use on or after January 19, 1965 [the issue date of the second Western patent No. 3,166,693], on which royalty is payable by your company to Western under the above agreement, the royalty rate *is hereby reduced* to one and eight-tenths per cent (1.8%)." (App. 33)

These unilateral repudiations of the original 4½% royalty rate are cogent intrinsic evidence that it is discriminatory.

X(B) of the decree and stated that the June 1, 1960 "agreement" was a nullity which could not be raised as a bar to the relief sought. Thus, paragraph 1 states:

> "(1) This Court has jurisdiction of this matter pursuant to the provision of Paragraph X(B) of the aforementioned 'Final Judgment' of this Court. . . ." (Par. 1, *infra*, p. 10a)

As to jurisdiction, Components' motion further alleged:

> "Components, Inc. and Western Electric have been 'unable to agree within 90 days upon reasonable royalties'[7] and upon 'other terms', and hence the prerequisites of Paragraph X(B) of the aforementioned 'Final Judgment' insofar as an application to this Court for the determination of reasonable royalties is concerned, have been satisfied. Accordingly, this Court had and still has jurisdiction over this matter. . . ." Par. 11, *infra*, p. 13a)

As to the alleged June 1, 1960 "agreement", Components' motion stated:

> "(2) On June 1, 1960, a 'License Agreement' was consummated between Components, Inc. and Western Electric Co., pursuant to which Components, Inc. was granted the right to produce and sell 'solid electrolytic capacitors' as disclosed in certain pending patent applications hereinafter referred to as Western Electric applications. . . .
>
> "The aforesaid license [June 1, 1960] *can not be raised as a bar to the present motion, inter alia because*
>
> "(a) It was illegally consummated by Western Electric Co., Inc. in derogation of the aforesaid 'Final Judgment', including specifically, but without limitation, paragraph X(C) thereof, said 'license agreement' being in fact but one of a plurality of license agreements so illegally consummated by Western as more fully set forth in paragraph *12* hereof:

---

[7] Note the prior averment that "Components . . . has been engaged in negotiations virtually continually since the issuance of patent 3,093,883 on June 18, 1963 in an attempt to reach agreement . . . as to a reasonable royalty" (Par. 8, *infra*, p. 13a.)

"(b) There has been no meeting of the minds of the parties with respect to any royalty, reasonable or otherwise, for the patents which ultimately were identified as subject to the alleged license, all as set forth more specifically in paragraph 3 to paragraph 11 hereof." (Par. 2, *infra*, p. 11a)

As to the illegality of the alleged license of June 1, 1960, under Section X(C) of the aforesaid "Final Judgment", Paragraph 12 of the Components Motion, as amended, alleges that

"The negotiations between Components, Inc. and Western Electric were, and the determination of a reasonable royalty is, seriously influenced by the discriminatory licensing practices in which Western Electric has engaged with respect to the patents which are placed in issue by this application.

"In part on information and belief, Components, Inc. represents that Western Electric has granted a plurality of licenses under such patents which are at net royalty rates substantially less than the royalty rate of 1.8% now demanded by Western Electric from Components, Inc., whereby Components, Inc. has been placed at a serious competitive disadvantage in the solid electrolytic capacitor industry.

"Further, on information and belief, said plurality of licenses, including the 'License Agreement' between Components, Inc. and Western Electric Co., Inc. identified in paragraph 2 hereof, are illegal *inter alia* by reason of the aforesaid discriminatory licensing practices which are in derogation of said final judgment." (Par. 12, *infra*, p. 13a.)

Components' motion thus asserted a substantial claim under the consent decree and under the patent and antitrust laws on which that judgment is premised.

Western responded to Components' application with an attack upon the jurisdiction of the court to entertain it. This attack was supported by affidavits of Western's employees Wertz and Feehan denying the allegations of Components' "moving papers . . . that Western . . . had

entered into 'discriminatory' license agreements in violation of the provisions of'' the consent decree.[8]

Recognizing its burden in the face of this attack by Western to establish subject matter jurisdiction by competent proof, *McNutt* v. *General Motors Acceptance Corp.*, 298 U.S. 178, 189, 80 L.Ed. 1135 (1936), Components, on September 26 and October 1, 1968, respectively, served on Western Electric Company and on the affiant Wertz and certain other Western executives (a) a notice of the taking of depositions (App. 84) and (b) two subpoenas *duces tecum* (App. 89, 90) demanding the production of the pertinent documents from Western's files.

The discovery contemplated by these deposition notices and subpoenas was deemed essential to the development of the facts requisite to a fair presentation of Components' case for jurisdiction. The affidavit of Gene W. Stockman (App. 117), counsel for Components, filed prior to the October 14, 1968 hearing, states: ''That it was the purpose of the subpoenas and of the 'Notice of Taking Depositions' to develop all of the relevant facts concerning the averments set forth in the aforementioned Wertz affidavit''; ''That he believes the information with respect to these factual issues . . . are peculiarly within the knowledge of the defendant Western Electric and are not available to applicant Components, Inc. . . . from any other presently known source''; and ''That it is his professional judgment . . . that Components, Inc. cannot reasonably or fairly state its opposition to the positions taken by Western . . . in the absence of the discovery sought'' (App. 117, 118).

On October 2, 1968 Western Electric responded to Components' request for discovery with its ''Motion to Set

---

[8] The quotation is from page 14 of Western's brief before the appellate court, hereinafter cited as "W. Br. —". Pertinent excerpts are reproduced, *infra*, p. 24a.

The Court of Appeals, by order dated July 18, 1969, *infra*, p. 22a denied petitioner's "Motion for Order Authorizing Clerk to Include Briefs of Parties in Certified Record" citing Rules 21-1 and 23-3 of this Court.

Aside Notice of Depositions and to Quash Subpoenas" (App. 91). On October 4, 1968 Components filed its motion for "an Order staying the hearing on Applicant, Components, Inc.'s Motion for Determination of Reasonable Royalties pending the determination of Applicant's right to take discovery, and until it has had an opportunity to complete discovery procedures and pending hearing on Defendant's Motion to Set Aside Notice of Depositions and to Quash the Subpoenas Duces Tecum" (App. 96).

At the ensuing October 14, 1968 hearing, the district court *assumed* and *exercised* its *jurisdiction* to determine that Components' claim was not well founded because the consent decree "was not designed to be used in the manner that Components now urges" (App. 127; *infra,* p. 8a). Notwithstanding this affirmative exercise of its jurisdiction, the court dismissed Components' "Motion . . . for Determination of Reasonable Royalties" for lack of jurisdiction (App. 119, 128; *infra,* pp. 6a, 9a).

The dismissal was admittedly on the basis of arguments in the opposing papers of Western supported by *affidavits* of Western's employees which raised disputed fact questions germane to the jurisdictional issue—yet Components' timely motion for discovery on these very questions was summarily denied as "moot".

In its bench decision, the district court stated:

> "... it has been determined by the Court that the Court has no jurisdiction to entertain a motion of Components, Inc., for the determination of reasonable royalties, and, accordingly that motion is dismissed without prejudice and without costs.
>
> * * * * *
>
> "... And I will make this further comment. I did have opportunity after you delivered to my office shortly after 9:00 a.m. to read your memorandum and also to read the papers that were enclosed with the file, and they have been considered in connection with my disposition of the motion." (App. 128-129, *infra* p. 9a.)

The "papers that were enclosed with the file" which the trial judge "considered in connection with [his] disposition of the motion" included the controversial affidavits filed by Western. Thus the final order of dismissal, which was drafted by counsel for Western, states:

> ". . . this Court having considered the various moving papers, *affidavits,* memoranda of law and arguments of counsel;
>
> "IT IS on this 14th day of October, 1968, ORDERED and ADJUDGED that the application of Components, Inc. as amended for a determination of reasonable royalties . . . be and the same hereby is denied and the same be and hereby is dismissed for *lack of jurisdiction* without prejudice and without costs; and
>
> "IT IS FURTHER ORDERED and ADJUDGED that in view of the foregoing determination, the motions of defendant Western Electric Company, Incorporated to set aside notice of depositions and to quash subpoenas, and of Components, Inc. for a stay, be and the same hereby are declared moot." (App. 119, *infra,* p. 6a)

The district court refused to accept as admitted and proved the affirmative averments in Components' motion pleading that the so-called 1960 agreement "cannot be raised as a bar to the present motion . . . because (a) . . . It was illegally consummated . . . in derogation of" the decree and (b) "There has been no meeting of the minds of the parties with respect to any royalty . . . for the patents which ultimately" issued. Tacitly finding that these averments were *not* true, the court in its bench decision said

> ". . . This is not a case where one company is seeking a license from the Bell System and they are unable to agree upon royalties. Here an agreement was reached in 1960 and Components seek to use this action to secure either a retroactive reduction of royalties provided for in that agreement or a declaration that none are owing.

* * * * *

> " . . . if there were no contract between Components and Western Electric and Components made application for a license agreement, and if on consideration of that application and the terms of the agreement reasonable royalties could not be agreed upon, it may be that under such a state of facts that Components could seek the aid of this Court, but it would be only for the purpose of royalties to be paid in the future, not for a review of past performance." (App. 127; *infra*, p. 8a)

As will be seen, the appellate court condoned this refusal of the district court to accept as proved the averments of Components' pleading which was, nevertheless, found on its face to be fatally defective.

Neither court advanced any reason why Components' pleading should be treated differently from a complaint in an ordinary civil action under like circumstances.

Appellate Proceedings

In its "Statement of the Issues" on appeal, Components presented the questions which it deemed fairly raised on the record below, namely, whether the district court erred "in summarily dismissing for 'lack of jurisdiction' " Components' motion for a determination of reasonable royalties; whether the district court erred "in denying the timely request of . . . (Components) to proceed with discovery and present evidence on the jurisdictional issue"; and whether the district court erred "in dismissing Components' motion pleading for 'lack of jurisdiction' on the basis of representations of . . . Western . . . as corroborated by affidavits of Western's employees, while concurrently denying Components' . . ." request for discovery on the jurisdictional issue.[9] (C. Br. 1, 2) See *infra* p. 23a.

In contrast, appellee Western asserted in its counterstatement of the issues that the questions presented were, *inter alia*, whether the district court correctly determined (1) that one "not a party to" the original antitrust action which

[9] Components' opening brief below is cited "C. Br. —." Excerpts therefrom are produced, *infra*, p. 23a.

resulted in the consent decree has "no standing to obtain discovery" and "is not entitled" under Section X(B) "to attack its license agreement with Western Electric as allegedly contravening the" consent decree [10] and (2) "that Section X(B) . . . contemplates neither review of existing license agreements, nor resolution of disputes involving compensation for the past use of patents" [11] (W. Br. 1, 2) quoted, *infra*, p. 24a. The appellate court answered these questions in the affirmative.

While acknowledging that Section X of the consent degree "is *not* expressly limited to future royalties" (*infra*, p. 4a), the court of appeals posited its decision upon an express finding that "Components . . . *failed* to bring itself within Section X(B) by not applying for a determination of reasonable royalties for the *future*" (*infra*, p. 4a).

The court ignored and subverted the provisions of Section X(A) of the decree by which Western is "ordered" to grant a reasonable royalty license to "*any* applicant . . . at *any* time". To justify this imposition of an unexpressed jurisdictional limitation upon Section X(B)—and the dismissal of Components' motion for failure to anticipate it—the court said:

> ". . . [W]e will not give the provisions of an antitrust consent judgment 'a reading [which] ignores both context and good sense.' . . . *Since* the language of Section X(B) postulates a 'written request for a license,' an 'applicant,' and circumstances where the parties are 'unable to agree . . . upon reasonable royalties or any other terms,' *its language is clearly addressed to situations where the failure to conclude* a *licensing agreement* warrants judicial determination of what its terms

---

[10] A successful attempt to bring this case into the ambit of inapposite precedent dealing with attempts to intervene in concluded antitrust actions—specifically, *Application of Clark Walter & Sons, Inc.*, 392 U.S. 659 (1968), involving the same consent decree here in issue. In its opinion the court relied upon the *Clark Walter* case (*infra*, p. 4a, note 6).

[11] An attempt—which also proved successful—to ignore the averments of Components' pleading that the alleged agreement was illegal and a nullity.

should reasonably be so that the parties may *commence performance.*[12] . . ." (*infra*, p. 4a)

In finding that Components' application did not anticipate this new "jurisdictional" limitation which is not consistent with the decree's provisions, the court said:

". . . By contrast, Components' allegation in its application that it had sought since 1963 to reach agreement with Western on a reasonable royalty, taken in conjunction with the undisputed fact that no royalties have been paid under the 1960 agreement, indicates that the request for judicial determination of reasonable royalties was directed to the past, namely, the period from 1963 to the time the application was filed. To this extent, it was properly dismissed for lack of jurisdiction. . . ." (*infra*, pp. 4a-5a).

This statement overlooks the fact that Components' application expressly sought a determination of "a reasonable royalty . . . under the Western Electric patents placed in issue by this motion" (*infra*, p. 14a), specifically patents 3,093,883 and 3,166,693 (App. 5.) These patents issued for a seventeen-year term, 35 U.S.C. 154, on June 18, 1963 and January 19, 1965, respectively (*infra*, p. 12a). The second of these patents will not expire until January 19, 1982. Reckoning from "the time the application was filed" on July 9, 1968, almost 14 years of "future royalties" are involved. To paraphrase the opinion, "to *this* extent" Components' application was *not* "properly dismissed for lack of jurisdiction", even by the appellate court's standards.

The appellate court, like the trial judge, was strongly—and erroneously—influenced by the pendency of the contract action instituted in the Delaware state court. While in its decision the court gave lip service to the "assumption" "that the 1960 licensing agreement is unenforceable, as

---

[12] Note again that this ruling "ignores" the fact that by Section X(A) of the decree, Western is "ordered and directed to grant . . . to *any* applicant . . . at *any* time non-exclusive licenses"—not just to those applicants who wish to "commence performance".

alleged in Components' applications" (*infra*, p. 4a), it nevertheless held:

> "Even assuming that Section X(B) contemplates a determination of past royalties, it would appear unwise, for reasons of sound judicial administration and 'a proper regard for the autonomy of the states,' to preempt that previously filed state action in which Components is assured of a hearing as to the matters raised in its application to the District Court. See *Mottolese* v. *Kaufman*, 176 F. 2d 301, 302 (2nd Cir. 1949); *cf. United States* v. *Libbey-Owens-Ford Glass Co.*, 1955 CCH Trade Cases, ¶ 68,207 (N.D. Ohio 1955)."[13] (*infra*, p. 5a, Note 10)

As emphasized in Components' petition for rehearing (pp. 6, 7), this holding overlooks the fact that this case arises under the patent and antitrust laws and not under the Delaware state law. The doctrine of federal preemption precludes the state court action. *Sears, Roebuck & Co.* v. *Stiffel*, 376 U.S. 225 (1964); *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U.S. 173 (1942); *Sperry* v. *Florida*, 373 U.S. 379 (1963); *Lear, Inc.* v. *John S. Adkins*, — U.S. —, 162 USPQ 1 (June 16, 1969).[14]

---

[13] The cases cited by the appellate court do not support its ruling. *Mottolese* was a diversity case—a stockholders derivative action premised on state—not federal—law. *Libbey* was not concerned with state court proceedings at all but, rather, with an infringement action instituted by the antitrust defendant subject to the consent decree. In its opinion in the related case of *American Securit Co.* v. *Shatterproof Glass Corp.*, 268 F. 2d 769 (3 Cir. 1959), the court adverted to the fact that the United States in *Libbey* had filed "a petition for an order to construe and enforce the consent decree, alleging that Securit's action in bringing the suit at bar against Shatterproof was instituted as an attempt to defeat the Toledo decree and was barred by it and prayed that Securit be permanently enjoined from taking action in any court to prevent any applicant for a license from exercising any rights conferred by the Toledo decree" (268 F. 2d at 772).

[14] The court also said—erroneously—that "As to past royalties, Componepts will be free to litigate their reasonableness . . . in the Delaware state courts" and that "Components is assured of a hearing [in Delaware] as to the matters raised in its application [for a reasonable royalty determination]". (Cont'd.)

The appellate court was also preoccupied with the issue of whether or not Components' application adequately alleged that a "written request" as required by Section X(B) of the consent decree had been submitted to Western. Thus the court stated in footnote 6 of its opinion: "The application fails to allege that the 'written request' required by Section X(B) of the consent judgment was received by Western, and counsel for Components conceded at oral argument before us that no formal written request for a license had been served" (*infra*, n. 6, p. 4a). In footnote 9 of its opinion the court stated: "It is noted that Components' application . . . as noted in footnote 6, *supra*, . . . failed to allege a 'written request' " (*infra*, n. 9, p. 5a). As pointed out in the petition for rehearing, this "written request" issue was ***not raised in the lower court.*** It was raised *sua sponte* by the appellate court for the first time at the oral argument. As also stated in the petition for rehearing, counsel's recollection of his statements at oral argument is that it was conceded that no "formal" written request *could be identified in the printed appendix* BUT THAT counsel emphasized that the application had been summarily dismissed in the district court with *no opportunity to explore the issue which was* NOT *raised below.*

The Position of the United States

On December 11, 1968 the Assistant Attorney General, Antitrust Division, wrote the Clerk of the United States Court of Appeals for the Third Circuit as follows:

---

[14] (Cont'd.)

As the court was advised on petition for rehearing, this statement is incorrect. On its face the Western complaint in the Delaware state court is "for an accounting". The relief sought is an order and judgment requiring Components "to account to plaintiff for royalties due" and granting "specific performance" of the alleged "agreement" (App. 37). The state court complaint does not contemplate a determination of the "reasonableness" of the royalties nor does it assure Components "of a hearing as to the matters raised in its application" for a reasonable royalty determination. In fact, a primary reason for seeking relief under the consent decree was the very fact that such relief is not available in the state court action.

"Dear Mr. Quinn:

"This is to inform you that the United States will not participate in the appeal of the above-captioned case.

"This action is one in which a private party seeks to have a determination of reasonable patent royalties under a judgment resulting from a government instituted case. While the decree confers rights upon private parties to obtain such determinations, the dispute here appears to be essentially private in nature *Shenandoah Broadcasting* v. *ASCAP*, 375 U.S. 39, 40." (App. 130)

REASONS WHY THE WRIT SHOULD BE GRANTED

1. *The issues are important to the administration of the patent and antitrust laws.* In the twenty years since 1948, at least thirty-one antitrust consent decrees (Exhibit A *infra*, p. 20a) requiring the defendants to license their patents at nondiscriminatory, reasonable royalties have been entered.[15] These consent decrees, "on which the effective enforcement of our antitrust laws depends in no small degree", *United States* v. *ASCAP*, 331 F.2d 117, 123 (2 Cir. 1964), are intended to regulate a substantial cross section of American industry. To be effective, the decrees must be given a practical construction consistent with the social policy they implement.

In this case, the lower courts have subverted the paramount public interest in effective antitrust law enforcement to the private interest of Western, the antitrust defendant. The lower courts have ignored the plain language of the decree which orders Western to grant reasonable royalty licenses to "any applicant . . . at any time" to hold that only applications by parties who wish to "commence perform-

[15] Exhibit A is a reproduction of the "Exhibit A" appearing at pages 17 to 19 of Western's brief below (W.Br. 17-19). In its appellate brief, Western says that these decrees contain "comparable provisions for the determination of reasonable royalties" to those of the Western decree here in issue (W.Br. 7), quoted, *infra* 24a.

ance'' may seek a ''determination of reasonable royalties for the future''. The scope of the relief afforded to the public is thus sharply restricted—and Western left free to restrain competition with its mass of patents in some ways even more effectively than if the decree had never been entered.

The decree mandates that Western must grant licenses under its patents not only at ''reasonable royalties'' but also that these licenses must be ''non-discriminatory as between licensees''. The Western decree provides, however, that Western may ''exchange'' licenses under its patents for a license under patents owned by its licensees and that royalty provisions of agreements under which licenses are exchanged and royalties are adjusted or eliminated to reflect a *bona fide* estimate of such licenses shall not be deemed to discriminate between licensees'' [Section X(C)].

Virtually the entire electrolytic capacitor industry is bound up in these cross-license arrangements with Western. Normally, no individual member of the industry knows of the terms and conditions of the licenses of his competitors. *This* information is known *only* to Western. The result is that Western, by virtue of the decree *as it has been construed below* is in a position to control competition in the whole industry merely by ''estimating'' *unilaterally* the value of the licenses received in ''exchange''—and then subtracting that estimated ''value'' from the ''established standard unilateral royalty rate'' which it is the admitted ''policy of Western Electric'' to establish. (Wertz Affid., par. 2, App. 80).

At the time its application was filed, Components had properly gained access to the license between Western and one of Components' competitors. For this reason, coupled with its knowledge of the industry, Components, in its reasonable royalty application was in a position to allege, on information and belief, that Western Electric *has* granted a *plurality* of licenses which are at ''rates substantially less than the royalty rate . . . now demanded by Western from Components, Inc., *whereby* Components, Inc. has been placed at

a serious *competitive disadvantage* in the solid electrolytic capacitor industry," and that "said plurality of licenses . . . are illegal *inter alia* by reason of the aforesaid *discriminatory* licensing practices which are in derogation of said final judgment" (*infra*, p. 14a).

The courts below just ignored this averment *to hold, that Western, having induced Components to sign an illegal contract in derogation of the decree, can now impose the agreement as a bar to the very relief which the subverted decree expressly authorizes.*

The result under the decision below is that Western is the *sole* judge of whether its own "estimates" of the value of the licenses it accepts in exchange are "bona fide"—and hence of whether the royalties it offers are "reasonable".

This emasculation of the consent decree is directly consequent from the lower courts' affirmative holding that Components' application is nonjurisdictional *because* Western after all is *not* required to grant reasonable royalty licenses to "any applicant . . . at any time" but rather must only grant licenses to parties desiring to "commence operations" and who apply for a "determination of reasonable royalties for the future".

To so hold, the court below was forced not only to ignore the plain language of the decree but also to render a decision conflicting both directly and in principle with the apposite decisions of this Court.

2. *The decision below is in conflict with the decisions of this Court enforcing the pre-emptive federal prerogative in the antitrust and patent fields.* The courts below denied Components' application primarily because of the existence of the alleged June 1960 license agreement. Both courts were particularly influenced by the pendency in the state court of Delaware of an accounting action instituted by Western in an attempt to enforce that illegal contract.

Quite apart from the question of whether the 1960 "agreement" is *per se* valid under *state law* is the fundamental and *dispositive issue of whether such a contract can stand as an impediment to the effective enforcement of*

the federal patent and antitrust statutes in any case. This Court has repeatedly held that it cannot.

As we emphasized on petition for rehearing (pp. 6, 7), in its decision, the court below overlooked the fact that Components' claim, framed as it was in the very terms of Section X(B) of the consent decree, arises under the antitrust and patent laws of the United States. As we said

> " . . .These laws, like other laws of the United States enacted pursuant to constitutional authority, are the supreme law of the land. See Sperry v Florida, 373 US 379, 10 L ed 2d 428, 83 S Ct 1322 (1963). When state law touches upon the area of these federal statutes, it is 'familiar doctrine' that the federal policy 'may not be set at naught, or its benefits denied' by the state law. Sola Elec. Co. v Jefferson Elec. Co. 317 US 173, 176, 87 L ed 165, 168, 63 S Ct 172 (1942). . . ." *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 229 (1964).

To this precedent, we now add the June 16, 1969 decision in *Lear* v. *Adkins*, — U.S. —, 162 USPQ 1 where *certiorari* was granted to reconsider the validity of the doctrine of patent licensee estoppel "in the light of our recent decisions emphasizing the strong federal policy favoring free competition in ideas which do not merit patent protection. *Sears, Roebuck* v. *Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964)."

In *Lear*, this Court overruled the doctrine of patent licensee estoppel which "is solely a matter of state [contract] law", as inconsistent with the federal law requirement "that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent". Similarly, the decision below subverting Components' claim under the decree to Western's rights, asserted solely under state contract law, is inconsistent with the federal prerogatives in the antitrust and patent fields.

The procedure by which this departure from basic principles was accomplished is equally in conflict with this Court's mandates.

3. *The dismissal of Components' application "for lack of jurisdiction" is in conflict with the apposite decisions of this Court.* The decision dismissing Components' application for "lack of jurisdiction" conflicts directly with the rule enunciated by this Court in many cases, including *Montana-Dakota Utilities Co.* v. *Northwestern P.S.C.*, 341 U.S. 246, 249 (1951); *Lauritzen* v. *Larsen*, 345 U.S. 571, 575 (1953); and *Romero* v. *International Terminal Operating Co.*, 358 U.S. 354, 359 (1959).

In *Romero*, the court said:

> "(a) *Jurisdiction under the Jones Act.*—The District Court dismissed petitioner's Jones Act claims for lack of jurisdiction. 'As frequently happens where jurisdiction depends on subject matter, the question whether jurisdiction exists has been confused with the question whether the complaint states a cause of action.' Montana-Dakota Utilities Co. v. Northwestern Public Service Co. 341 US. 246, 249, 95 L ed 912, 917, 71 S Ct 692. Petitioner asserts a substantial claim that the Jones Act affords him a right of recovery for the negligence of his employer. Such assertion alone is sufficient to empower the District Court to assume jurisdiction over the case and determine whether, in fact, the Act does provide the claimed rights. 'A cause of action under our law was asserted here, and the court had power to determine whether it was or was not well founded in law and in fact.' Lauritzen v. Larsen, 345 US 571, 575, 97 L ed 1254, 1262, 73 S Ct 921."

So in this case "a cause of action" under the consent decree and under antitrust and patent laws on which it rests has been "asserted here, and the court had power to determine whether it was or was not well founded in law and in fact". The district court below exercised that "power" to construe the decree and hold that Components' complaint "was *not* well founded in law and fact". It nevertheless dismissed Components' application for "lack of jurisdiction". The Third Circuit affirmed.

And, while the trial judge properly imposed upon Components the "burden . . . to establish . . . that the claim

asserted is one within the jurisdiction of the court'' (*infra*, p. 8a), *McNutt* v. *General Motors Acceptance Corp.*, 298 U.S. 178, 80 L. Ed. 1135 (1936), he quite improperly denied Components an opportunity to discharge this ''burden'' which he said ''Components has not borne''. In so holding, the district court, as affirmed by the court of appeals, acted in derogation of established law which guarantees a plaintiff the right to take appropriate discovery and to present relevant evidence in opposition to a motion to dismiss for lack of jurisdiction.

Such a blatant departure from the rule frequently reiterated by this Court presents an important problem of judicial administration warranting immediate correction.

4. *In conflict with the decisions of this Court, the lower tribunals refused to accept the averments of Components' motion pleading as admitted and proved.* It is established law that upon a motion to dismiss a civil complaint for failure to state a claim, all facts contained in the complaint and every inference fairly deducible therefrom should be treated as admitted and proved, viewing the same in the light most favorable to the plaintiff. Moreover, whether the averments be called ''allegations of fact'' or ''mere conclusions of the pleader'', they must be taken into account in deciding whether a claim for relief is stated. See *United States* v. *Employing Plasterers Ass'n.*, 347 U.S. 186, 188-189 (1954); *Melo-Sonics Corp.* v. *Cropp*, 342 F.2d 856, 858 (3 Cir. 1965).

In this case, *both* courts below refused to apply this settled law to the averments of Components' motion pleading. Among other things, both courts ignored totally the averments of Components' pleading that the 1960 license agreement was illegal and void, *inter alia*, as discriminatory within the meaning of Section X(C) of the decree itself. Instead, both courts below assumed—contrary to Components' averments—that the 1960 agreement is a valid, enforceable contract and posited their opinions importantly upon the litigation involving it in the Delaware state court.

If the averments of Components' motion pleading *had been taken as true,* as they should have been, dismissal for want of jurisdiction was foreclosed. It was for that reason that these averments were ignored.

CONCLUSION

It is respectfully requested that this Petition for Writ of Certiorari be granted.

Respectfully submitted,

GENE W. STOCKMAN
1000 Connecticut Avenue, N.W.
Washington, D. C. 20036
Attorneys for Petitioner
Components, Inc.

APPENDIX

Opinion of the United States Court of Appeals for the Third Circuit

(Filed May 7, 1969)

By VAN DUSEN, *Circuit Judge.*

This appeal is from an October 14, 1968, order of the District Court dismissing after a hearing, for lack of jurisdiction without prejudice, the "application of appellant, Components, Inc., for a determination of reasonable royalties pursuant to the provisions of Section X(B) of the Final Judgment of this Court entered on January 24, 1956 . . . ."

The United States commenced antitrust proceedings in the District Court in 1949 against certain defendants, including Western Electric.[1] A consent judgment was entered in 1956. Its Section X provides, in relevant part:

> "(A) The defendants are each ordered and directed to grant or cause to be granted, to any applicant who shall make written application therefor at any time or from time to time, non-exclusive licenses under all claims of any, some or all existing and future Bell System patents to make, have made, use, lease and sell any or all equipment as desired by the applicant, such licenses . . . (3) to be at reasonable royalties to all persons under all other existing and future Bell System patents; . . . .
>
> . . . . . .
>
> "(B) Upon receipt of a written request for a license under the provisions of this Section, the defendant to whom such request is addressed shall advise the applicant in writing of the royalty, if applicable, which it deems reasonable therefor, ... If the parties are unable to agree within ninety (90) days upon reasonable royalties or any other terms, the applicant or such defendant may apply to this Court for the determination of reasonable royalties and other terms, ...

[1] *United States of America* v. *Western Electric Co., Inc. and American Telephone and Telegraph Co.*, Civil Action 17-49 (Dist. N.J.).

> Pending final determination of the foregoing, the applicant or said defendant may apply to this Court to fix interim royalty rates and other interim terms and conditions."

Components, Inc., which was not a party to the consent judgment, applied to Western for a patent license to produce capacitors. An agreement was negotiated and signed in 1960, granting Components certain non-exclusive licenses at stated royalties; "said royalt[ies], however, not becoming due and payable until a patent issued on the licensed applications". In 1958, however, the United States Patent Office had declared an Interference between a Western patent application which was subject to the 1960 agreement and an application held by the Sprague Electric Company as assignee.[2] The Interference proceedings culminated in 1962 with the granting of a patent to Sprague, which substantially fulfilled its application. Narrower patents were granted to Western in 1963 and 1965 deriving from its original application. Components entered into a separate licensing agreement with Sprague in 1964 for its 1962 patent at a stated royalty. Western, upon the issuance to it of the 1963 and 1965 patents, reduced the royalty payable by Components under their 1960 agreement.[3]

Despite the reductions, Components apparently continued to maintain that the royalty payable to Western was too high, and none has ever been paid. Western finally brought suit in May 1968 against Components in a Delaware state court for an accounting and specific performance of the 1960 licensing agreement.[4] Two months later, in July 1968, Components filed its application in the District Court, requesting determination of a reasonable royalty under the

---

[2] Components claims that it was unaware of this fact when it entered into the 1960 agreement. For reasons which shall presently appear, this factor is irrelevant to our decision. See pages 4-5 below.

[3] Components' application alleges that this reduction was "unilateral" and its counsel argued to us that it constituted a "repudiation" of the agreement. This factor will be seen to be irrelevant to our decision; see footnote 2, *supra*.

[4] *Western Electric Co., Inc.* v. *Components, Inc.*, Civil Action 2820, Delaware Ct. of Chancery. Components has filed no answer in this action, a stay having been granted in December 1968 pending the outcome of the appeal now before us.

agreement, an opportunity to engage in discovery, and an injunction against the Delaware action. The District Judge denied the application and dismissed it for lack of jurisdiction, without prejudice.[5]

Assuming that the 1960 licensing agreement is unenforceable, as alleged in Components' applications, and assuming further that the required "written request" was received by Western,[6] Components nevertheless failed to bring itself within Section X(B) by not applying for a determination of reasonable royalties for the *future*.[7] Though the Section is not expressly limited to future royalties, we will not give the provisions of an antitrust consent judgment "'a reading [which] ignores both context and good sense.'" See *United States* v. *American Society of Composers, A. & P.*, 331 F. 2d 117, 121 (2nd Cir.), cert. den. 377 U. S. 997 (1964). Since the language of Section X(B) postulates a "written request for a license," an "applicant," and circumstances where the parties are "unable to agree . . . upon reasonable royalties or any other terms," its language is clearly addressed to situations where the failure to conclude a licensing agreement warrants judicial determination of what its terms should reasonably be so that the parties may com-

---

[5] This order also disposed of certain motions relating to discovery. Components had served subpoenas and a notice of taking of depositions upon Western, which had moved to quash the subpoenas and to set aside the notice. Components had then moved to stay the hearings on its original application until completion of discovery. These motions were declared moot by the order of dismissal.

[6] The application fails to allege that the "written request" required by Section X(B) of the consent judgment was received by Western, and counsel for Components conceded at oral argument before us that no formal written request for a license had been served. We express no opinion as to whether Components' application to the District Court would suffice under X(B) as such a request, as contended by counsel.

In an opinion dated 2/26/68, the District Court denied an application of a distributor of private communications systems to intervene in this action on the ground that the Government had refused to enforce the consent decree of January 24, 1956. See *United States* v. *Western Electric Company, Incorporated, et al.*—Application of Clark Walter & Sons, Inc., (D. N. J., C. A. 17-49), aff'd. *sub nom. Clark Walter & Sons, Inc.* v. *United States*, 392 U.S. 659 (1968).

[7] Since the enforceability of the 1960 licensing agreement is irrelevant to our decision, discussion of Components' alleged right to discovery on the point is unnecessary.

mence performance. By contrast, Components' allegation in its application that it had sought since 1963 to reach agreement with Western on a reasonable royalty,[8] taken in conjunction with the undisputed fact that no royalties have been paid under the 1960 agreement, indicates that the request for a judicial determination of reasonable royalties was directed to the past, namely, the period from 1963 to the time the application was filed. To this extent, it was properly dismissed for lack of jurisdiction. Cf. *Maul Bros., Inc.* v. *Emhart Corporation*, 356 F. 2d 628 (6th Cir. 1966); *United States* v. *American Society of Composers, A. & P., supra*. However, the dismissal was without prejudice, and Components need not be precluded from applying for a determination of future royalties if it otherwise alleges facts which bring it within the requirements of Section X(B).[9] As to past royalties, Components will be free to litigate their reasonableness in Western's suit brought in the Delaware state courts.[10]

---

[8] Paragraph (8) of its application alleges that:

> "Components, Inc. has never accepted the reduced royalty rates as unilaterally proposed by Western Electric in the aforementioned letters of December 4, 1963 and October 4, 1965. . . . *Per contra*, Components, Inc. deeming the proposed royalties to be unreasonable, has been engaged in negotiations virtually continually since the issuance of patent 3,093,883 on June 18, 1963 in an attempt to reach agreement by compromise and settlement as to a reasonable royalty in the premises."

[9] Thus the District Judge stated:

> "The final judgment did not contemplate review of license agreements that were entered upon and retroactive considerations of reasonableness of royalties demanded in those agreements. It may be in the future—although it is not necessary for the Court to pass upon that now—if there were no contract between Components and Western Electric and Components made application for a license agreement, and if on consideration of that application and the terms of the agreement reasonable royalties could not be agreed upon, it may be that under such a state of facts that Components could seek the aid of this Court, but it would be only for the purpose of royalties to be paid in the future, not for a review of past performance."

It is noted that Components' application failed to allege that the parties were "unable to agree" with respect to future royalties, and, as noted in footnote 6, *supra*; also failed to allege a "written request."

[10] Even assuming that Section X(B) contemplates a determination of past royalties, it would appear unwise, for reasons of sound judicial ad-

The order of the District Court will be affirmed.

A True Copy:

Teste:

Clerk of the United States Court of Appeals for the Third Circuit.

ministration and "a proper regard for the autonomy of the states," to preempt that previously filed state action in which Components is assured of a hearing as to the matters raised in its application to the District Court. See *Mottolese* v. *Kaufman*, 176 F.2d 301, 302 (2nd Cir. 1949); cf. *United States* v. *Libbey-Owens-Ford Glass Co.*, 1955 CCH Trade Cases, ¶68,207 (N.D. Ohio 1955).

October 14, 1968

ORDER DENYING APPLICATION OF COMPONENTS, INC.

This matter being opened to the Court by Norman Bruck, attorney for Components, Inc. upon application for a determination of reasonable royalties pursuant to the provisions of Section X(B) of the Final Judgment of this Court entered on January 24, 1956; and upon motion of Pitney, Hardin & Kipp, attorneys for defendant Western Electric Company, Incorporated, to set aside notice of depositions and to quash certain subpoenas; and upon further motion of Components, Inc. for a stay; and this Court having considered the various moving papers, affidavits, memoranda of law and arguments of counsel;

IT IS on this 14th day of October, 1968, ORDERED and ADJUDGED that the application of Components, Inc. as amended for a determination of reasonable royalties pursuant to the provisions of Section X(B) of the Final Judgment of this Court entered on January 24, 1956 be and the same hereby is denied and the same be and hereby is dismissed for lack of jurisdiction without prejudice and without costs; and

IT IS FURTHER ORDERED and ADJUDGED that in view of the foregoing determination, the motions of defendant Western Electric Company, Incorporated to set aside notice of depositions and to quash subpoenas, and of Components, Inc. for a stay, be and the same hereby are declared moot.

ROBERT SHAW,
Judge of the United States District Court.

October 14, 1968 Bench Decision United States District Court for the District of New Jersey

The Court: I have reviewed the briefs in this case, and I have considered the arguments advanced by counsel in the briefs and orally.

This was an action that was commenced by the government in 1949 seeking civil redress under the Anti-Trust Laws. The matter was settled by a consent decree in 1956.

Section 10-A of the final judgment requires the defendant to grant " to any applicant, non-exclusive licenses to be at reasonable royalties to all persons under all other existing and future Bell System patents."

Section 10-C permits Western Electric to condition a patent license on payment of a reasonable royalty, if applicable, which shall be non-discriminatory as between licensees whose licenses were granted subsequent to the date of the final judgment.

It seems that Components in this case applied to Western Electric for a patent license agreement in April, 1960. Negotiations resulted in a cross license agreement which became effective June 1st, 1960, which specified royalty rates, and at a later date Western Electric determined to reduce unilaterally certain of the royalty rates.

Components have never paid any royalties to Western Electric under the license agreement of June 1st, 1960.

On May 24th, 1968, Western Electric brought suit in the State Court of Delaware for an accounting and specific performance of the provisions of the agreement which gave Western Electric the right to inspect Components' books and records. Components thereupon instituted the present suit for a determination of reasonable royalties.

Upon motion of Components the Delaware proceeding was temporarily stayed, and it moves to dismiss there or stay permanently on the ground that this Court has exclusive jurisdiction of this matter.

Hence, going directly to the heart of this issue, the question to be resolved is whether this litigation should be entertained in this Court. I have cited during the course of argument the key clause in the final decree entered in this Court in 1956. Components was not a party to that

action, and such rights as they have to intervene here must be governed by the provisions of the final decree. The Court did retain jurisdiction, but to a very limited extent as to the parties.

The retention of jurisdiction as to non-parties was also very limited. It seems to this Court that the final judgment was not designed to be used in the manner that Components now urges. This is not a case where one company is seeking a license from the Bell System and they are unable to agree upon royalties. Here an agreement was reached in 1960 and Components seek to use this action to secure either a retroactive reduction of royalties provided for in that agreement or a declaration that none are owing.

The final judgment did not contemplate review of license agreements that were entered upon and retroactive considerations of reasonableness of royalties demanded in those agreements. It may be in the future—although it is not necessary for the Court to pass upon that now—if there were no contract between Components and Western Electric and Components made application for a license agreement, and if on consideration of that application and the terms of the agreement reasonable royalties could not be agreed upon, it may be that under such a state of facts that Components could seek the aid of this Court, but it would be only for the purpose of royalties to be paid in the future, not for a review of past performance.

The burden rests upon the one who is not a party to a proceedings here to establish by the terms of the judgment that the claim asserted is one within the jurisdiction of the Court.

This burden, in the opinion of the Court, Components has not borne. The issue, as I understand it, before the Delaware State Court is the validity of the contract. I am assuming, though I do not know, not having gone through all the pleadings there, that what in substance Components is urging is failure of consideration. If that defense is tenable—and I particularly refrain from any comment on that after having reviewed the license agreement—then the action of Western Electric, it seems, would fail because nothing would be owing under the contract, but that, of course, is for the Delaware Court, and though I read the license agreement and have some definite thoughts about it, I think it appropriate that I refrain from any comment, and leave you to settle this with the Delaware Court.

The action will be dismissed for lack of jurisdiction and it will be dismissed—I don't care whether you designate it a petition to intervene or a motion invoking the jurisdiction of the Court. An appropriate order dismissing this without prejudice and without costs will be submitted.

Now I will dispose of the other motions. The granting of a motion to dismiss by the Court renders the other motions moot, namely, motion of Components for determination of reasonable royalties, motion by Western Electric to quash depositions and subpoenas, motion by Components to stay hearing on merits until after discovery is completed, and it has been determined by the Court that the Court has no jurisdiction to entertain a motion of Components, Inc., for the determination of reasonable royalties, and, accordingly, that motion is dismissed without prejudice and without costs.

* * * * *

The Court: And I will make this further comment. I did have opportunity after you delivered to my office shortly after 9:00 a.m. to read your memorandum and also to read the papers that were enclosed with the file, and they have been considered in connection with my disposition of the motion.

Mr. Kipp: If your Honor please, I don't feel that those papers this morning attempting to amend the motion are properly before the Court but in line with the decision reached by your Honor I don't object.

The Court: I don't see what grounds you would have for objection. They add nothing as far as the merits of this proceeding are concerned, but perhaps amplify to some extent the argument.

Motion of Components, Inc. for Determination of Reasonable Royalties

Applicant, Components, Inc., pursuant to the provisions of Paragraph X(B) of the "Final Judgment" of this Court dated January 24, 1956 in Civil Action 17-49, *United States of America* v. *Western Electric Co., Inc. and American Telephone and Telegraph Co.*, respectfully moves that this Court determine reasonable royalties and other terms of a patent license agreement with respect to certain patents offered for license by Western Electric Co., Inc.

In support of its motion, Components, Inc. represents as follows:

(1) This Court has jurisdiction of this matter pursuant to the provision of Paragraph X(B) of the aforementioned "Final Judgment" of this Court dated January 24, 1956 which provides that:

> "(B) Upon receipt of a written request for a license under the provisions of this Section, the defendant to whom such request is addressed shall advise the applicant in writing of the royalty, if applicable, which it deems reasonable therefor, and also of such licenses as defendants may specify under subsection (A) above. If the parties are unable to agree within ninety (90) days upon reasonable royalties or any other terms, the applicant or such defendant may apply to this Court for the determination of reasonable royalties and other terms, and the defendants shall, upon filing or receipt of notice of the filing of such application to this Court, promptly give notice thereof to the plaintiff. In any such proceeding the burden of proof shall be on the defendant to establish the reasonableness of royalties or other terms requested by it, and on the applicant to establish the reasonableness of royalties or other terms requested by the applicant. Pending final determination of the foregoing, the applicant or said defendant may apply to this Court to fix interim royalty rates and other interim terms and conditions. If this Court fixes such interim rates, terms and conditions, such defendant shall then tender and the applicant may then accept an agreement under which licenses shall be granted, in accordance with such interim determination, providing for the periodic payment of royalties, if applicable, at

such interim rates for any manufacture, use, or sale under the patents involved. If the applicant fails to accept such license agreement or fails to pay interim royalties in accordance therewith such action shall be grounds for the dismissal of his application."

(2) [as amended] On June 1, 1960 a "LicenseAgreement" was consummated between Components, Inc. and Western Electric Co., Inc., pursuant to which Components, Inc. was granted the right to produce and sell "solid electrolytic capacitors" as disclosed in certain pending patent applications hereinafter referred to as Western Electric applications. The license agreement provided for the payment by Components, Inc. to Western Electric of a royalty based on the net selling price of such capacitors, said royalty, however, not becoming due and payable until a patent issued on the licensed applications. A copy of the June 1, 1960 agreement is attached as Exhibit A.

The aforesaid license agreement can not be raised as a bar to the present motion, *inter alia* because

(a) It was illegally consummated by Western Electric Co., Inc. in derogation of the aforesaid "Final Judgment", including specifically, but without limitation, paragraph X(C) thereof, said "license agreement" being in fact but one of a plurality of license agreements so illegally consummated by Western as more fully set forth in paragraph 12 hereof;

(b) There has been no meeting of the minds of the parties with respect to any royalty, reasonable or otherwise, for the patents which ultimately were identified as subject to the alleged license, all as set forth more specifically in paragraph 3 to paragraph 11 hereof.

(3) At the time the license agreement was consummated on June 1, 1960, Components, Inc. understood that the patent rights which were the subject of the license included all those essential for the commercial production of solid electrolytic capacitors. This understanding was a primary motivation to Components, Inc. to accept the agreement in question.

(4) On July 14, 1958, Interference 89,529 was declared by the United States Patent Office between a Western Electric application of Haring et al which was subject to the June 1, 1960 license (Exhibit A), and an application of Robinson,

assignor to Sprague Electric Company. This Interference No. 89,529 ultimately resulted in the allowance of a *generic* claim covering solid electrolytic capacitors in the Sprague Electric Co. (Robinson) application which issued as U.S. patent 3,066,247 on November 27, 1962.

Subsequently, a much more limited species claim for a method of producing a particular form of such capacitors was allowed in a Western Electric application filed as a division of the aforementioned Western Electric Haring et al application, which issued as U.S. patent 3,093,883 on June 18, 1963. Further, on January 19, 1965, a second U.S. patent 3,166,693 issued on the actual Western Electric Haring et al patent application against which there had been an adverse decision rendered by the Patent Office in Interference No. 89,529, issued claiming, as products, capacitors produced by the method of the earlier issued Western Electric patent 3,093,883.

Thus, as a result of the interference proceedings, Components, Inc. did not receive what it bargained for in the negotiation of the aforementioned June 1, 1960 license agreement. As a result of that interference proceeding, the license covered only the narrow species patents 3,093,883 and 3,166,693 which are dominated by the generic patent 3,066,247 issued to Sprague Electric Co.

(5) Components, Inc. was thus forced on August 11, 1964 to accept a license from Sprague Electric Co. to practice the invention of the generic patent 3,066,247 requiring the payment of royalty at the rate of 2% of the net selling price of the electrolytic capacitors it produced. A copy of the Sprague Electric Company license agreement is attached hereto as Exhibit B.

(6) Further, and in part as a result of the aforementioned interference, the validity of the Western Electric patents 3,093,883 and 3,166,693 is open to serious question. Thus the value of the residual patent property which is subject to the originally consummated June 1, 1960 license (Exhibit A) was seriously attenuated by the interference proceedings.

(7) Tacitly acknowledging that the consideration which led to the consummation of the original June 1, 1960 license agreement (Exhibit A) was not reasonable in view of the result of the aforementioned interference proceedings, Western Electric unilaterally advised Components, Inc, that the original royalty rate would be lowered to 1.9% retro-

active to the June 18, 1963 issue date of Western Electric patent 3,093,883 Notice of this unilateral royalty adjustment was transmitted to Components, Inc. by letter dated December 4, 1963, a copy of which is attached as Exhibit C.

Subsequent to the issuance of patent 3,166,693, and specifically by letter dated October 4, 1965 (copy attached as Exhibit D), the royalty for solid electrolytic capacitors under the patent license agreement effective as of June 1, 1960 was further unilaterally reduced by Western Electric to 1.8% retroactive to the January 19, 1965 issue date of patent 3,166,693.

(8) Components, Inc. has never accepted the reduced royalty rates as unilaterally proposed by Western Electric in the aforementioned letters of December 4, 1963 and October 4, 1965 (Exhibits C and D). *Per contra*, Components, Inc. deeming the proposed royalties to be unreasonable, has been engaged in negotiations virtually continually since the issuance of patent 3,093,883 on June 18, 1963 in an attempt to reach agreement by compromise and settlement as to a reasonable royalty in the premises.

(9) Components, Inc.'s endeavor to negotiate a reasonable royalty finally culminated, on May 24, 1968, with the filing of Civil Action 2820 by Western Electric Co., Inc. against Components, Inc., an action for an accounting in the Court of Chancery of the State of Delaware in and for New Castle County. A copy of the complaint in that action is attached hereto as Exhibit E.

(10) At no time did Western Electric advise Components, Inc. of the provisions of Paragraph X(B) of the "Final Judgment" dated January 24, 1956 in Civil Action 17-49 as it should have done.

(11) Components, Inc. and Western Electric have been "unable to agree within 90 days upon reasonable royalties" and upon "other terms", and hence the prerequisites of Paragraph X(B) of the aforementioned "Final Judgment", insofar as an application to this Court for the determination of reasonable royalties is concerned, have been satisfied. Accordingly this Court had and still has jurisdiction over this matter whereby Western Electric should be enjoined from further prosecution of Civil Action 2820 in the Court of Chancery of the State of Delaware in and for New Castle County.

(12) [as amended] The negotiations between Compo-

nents, Inc. and Western Electric were, and the determination of a reasonable royalty is, seriously influenced by the discriminatory licensing practices in which Western Electric has engaged with respect to the patents which are placed in issue by this application.

In part on information and belief, Components, Inc. represents that Western Electric has granted a plurality of licenses under such patents which are at net royalty rates substantially less than the royalty rate of 1.8% now demanded by Western Electric from Components, Inc., whereby Components, Inc. has been placed at a serious competitive disadvantage in the solid electrolytic capacitor industry.

Further, on information and belief, said plurality of licenses, including the "License Agreement" between Components, Inc. and Western Electric Co., Inc. identified in paragraph 2 hereof, are illegal *inter alia* by reason of the aforesaid discriminatory licensing practices which are in derogation of said final judgment.

Substantial discovery from Western Electric and its licensees will thus be essential to fair resolution of the reasonable royalty question.

Wherefore applicant respectfully requests the Court

(a) pursuant to Paragraph X(B) of the "Final Judgment" in Civil Action 17-49 dated January 24, 1956 to determine a reasonable royalty and other terms of a patent license agreement under the Western Electric patents placed in issue by this motion;

(b) to take into consideration in the determination of such reasonable royalty, without limitation, the following:

i. the existing royalty bearing license agreement which applicant Components, Inc. was forced to consummate with Sprague Electric Co. and the payments which have been and will be made by Components to Sprague thereunder;

ii. the questionable scope and validity of the involved patents licensed by Western Electric;

iii. the anticompetitive practices of Western Electric in the consummation with applicant Components, Inc.'s competitors of discriminatory licenses under the same patents but at lower royalty rates;

iv. such other factors as may be relevant to the proper and fair determination of a reasonable royalty;

(c) to afford applicant Components, Inc. a reasonable opportunity to determine by appropriate means of discovery pursuant to the Federal Rules of Civil Procedure all facts which might lead to evidence relevant and material to a fair and proper determination of a reasonable royalty;

(d) to enjoin Western Electric from further prosecution of Civil Action 2820 pending in the Court of Chancery of the State of Delaware in and for New Castle County;

(e) to award applicant costs and attorneys fees having particular regard to the fact that Western Electric failed to call Paragraph X(B) of the aforementioned "Final Judgment" in Civil Action 17-49 to the attention of applicant Components, Inc. as it should have done incident the long negotiations between the parties;

(f) to grant applicant such other and further relief as the Court may find proper in the premises.

Final Judgment in C.A. 17-49

X

(A) The defendants are each ordered and directed to grant or cause to be granted, to any applicant who shall make written application therefor at any time or from time to time, non-exclusive licenses under all claims of any, some or all existing and future Bell System patents to make, have made, use, lease and sell any or all equipment as desired by the applicant, such licenses (1) to be royalty-free, to persons other than the other parties to the B-2 agreements, under all Bell System patents (other than patents of Teletypesetter Corporation) issued prior to the date of this Final Judgment, under which licenses or sublicensing rights were exchanged between the defendants and such other parties to the B-2 agreements, (2) to be at reasonable royalties to the other parties to the B-2 agreements under the aforesaid patents, except that such licenses shall be royalty-free to any such other party during any period for which licenses granted by it to the defendants or either of them, of the scope and character which the defendants may require it to grant to them pursuant to this Section X(A), shall be royalty-free under all patents issued prior to the date of this Final Judgment under which, and to the extent to which, such other party or its associated companies may have the right to grant licenses, and (3) to be at reasonable royalties to all persons under all other existing and future Bell System patents; but upon condition that the applicant shall grant to defendants at reasonable royalties licenses to make, have made, use, lease and sell such equipment useful in furnishing common carrier communications services and such machines, tools and materials useful in manufacturing or operating any such equipment, as defendants may then designate in writing, under all claims of any or all existing and future patents under which, and to the extent to which, the applicant or its associated companies may have the right to grant licenses. Except with the consent of the grantor of any license hereunder, no such license shall be under patents on inventions made more than five (5) years after the effective date of the license, but the applicant may make successive applications for licenses. Each grant of a license hereunder shall be for the unexpired terms of the patents under which such license is granted, or for such

lesser period as the grantee shall elect, and shall include the right to sublicense the grantee's associated companies for so long as they remain associated companies.

The provisions of this subsection (A) requiring the defendants to grant royalty-free licenses under certain patents shall not be deemed to constitute a finding, determination or admission that such patents are without value or that the defendants are not entitled to full damages and an injunction in the case of infringement of any such patent by any unlicensed person.

(B) Upon receipt of a written request for a license under the provisions of this Section, the defendant to whom such request is addressed shall advise the applicant in writing of the royalty, if applicable, which it deems reasonable therefor, and also of such licenses as defendants may specify under subsection (A) above. If the parties are unable to agree within ninety (90) days upon reasonable royalties or any other terms, the applicant or such defendant may apply to this Court for the determination of reasonable royalties and other terms, and the defendants shall, upon filing or receipt of notice of the filing of such application to this Court, promptly give notice thereof to the plaintiff. In any such proceeding the burden of proof shall be on the defendant to establish the reasonableness of royalties or other terms requested by it, and on the applicant to establish the reasonableness of royalties or other terms requested by the applicant. Pending final determination of the aforegoing, the applicant or said defendant may apply to this Court to fix interim royalty rates and other interim terms and conditions. If this Court fixes such interim rates, terms and conditions, such defendant shall then tender and the applicant may then accept an agreement under which licenses shall be granted, in accordance with such interim determination, providing for the periodic payment of royalties, if applicable, at such interim rates for any manufacture, use, or sale under the patents involved. If the applicant fails to accept such license agreement or fails to pay interim royalties in accordance therewith such action shall be grounds for the dismissal of his application.

(C) The defendants are each enjoined and restrained from including in any license granted by them any restriction or condition whatsoever limiting the exercise of the rights granted thereby except that the license may be personal and non-transferable and may be conditioned on (1) payment of a reasonable royalty, if applicable, which shall

be non-discriminatory as between licensees whose licenses are granted subsequent to the date of this Final Judgment, other than defendants' associated companies, but the royalty provisions of agreements under which licenses are exchanged and royalties are adjusted or eliminated to reflect a bona fide estimate of the values of such licenses shall not be deemed to discriminate between licensees, nor shall the bona fide compromise of claims for accrued royalty be deemed to be discriminatory, (2) subjection, to any grant of licenses and rights by applicant to the defendants, of patents of any company of which applicant is a subsidiary and subsidiaries of any such company and of patents on inventions made in the course of their employment, after the effective date of the license agreement, by employees of any such company, applicant or any of its subsidiaries employed to do research, development or other inventive work, and (3) such other terms as this Court shall approve upon application by the defendants and notice to the plaintiff. If the applicant shall so request, any agreement in which licenses are exchanged between applicant and defendants shall fix a reasonable royalty for each license, where applicable, rather than providing for the adjustment or elimination of royalties.

(D) Each license agreement executed pursuant to this Section X shall contain, if the licensor so requests, reasonable provisions requiring the licensee to keep records, submit royalty statements and give appropriate license notices, and for periodic inspection of the books and records of the licensee by an independent auditor or any person acceptable to the licensee.

(E) Each license agreement executed pursuant to this Section X shall provide:

(1) That the licensee upon giving written notice to the licensor may cancel any such license for any specified equipment, but subject to paying accrued royalties.

(2) If any licensee requests, that such licensee may at any time surrender its license under any specified patent or patents identified by number by written notice to the licensor, but subject to paying accrued royalties. If any licensee requests, the license agreement shall also provide that upon such surrender the royalty rates shall be renegotiated if requested by the licensee in writing, and if there is a material difference between the reasonable value of the licenses granted to such licensee, including the patents affected by such surrender, and the reasonable value of

such licenses without such patents, then such rates shall be reduced by an amount representing such difference. In event of disagreement whether a reduction should be allowed or the amount thereof, the matter may be determined in the manner set forth in subsection (B) of this Section X.

(3) If any licensee rquests, a royalty-free grant of immunity under all foreign patents owned or controlled by the licensor or its subsidiaries relating to the sale or use abroad of equipment manufactured under the license granted pursuant to this Section X.

(F) Each licensee of either defendant under a license agreement in effect at the date of this Final Judgment may cancel any licenses granted to it and its associated companies under such agreement by written notice to the licensor which shall terminate the obligation to pay royalty under the license agreement with respect to any equipment not manufactured, sold, leased or put into use under such licenses prior to such notice. Within sixty (60) days from the date of this Final Judgment, defendants shall mail a copy of the provisions of this Section X to all such existing licensees.

(G) The defendants are each enjoined and restrained, except where this Court upon application by a defendant and notice to the plaintiff shall find good cause therefor, from directly or indirectly:

(1) acquiring any license, grant of immunity or similar right under patents unless such license, grant of immunity or similar right shall be non-exclusive;

(2) disposing of any patents, or rights thereunder, so as to deprive defendants of the power to grant or cause to be granted licenses as required under this Section X unless it be a condition of such disposition that the transferee shall observe the provisions of this Section X with respect to the patents and rights so acquired and shall file with this Court, prior to such disposition, an undertaking to this effect; provided, however, that this subsection (G)(2) shall not be deemed to apply to (a) any transfer of patents or rights thereunder to the plaintiff or any agency thereof, or (b) a disclaimer, or a concession or other grant in interference proceedings; or

(3) granting or receiving any right to grant sub-licenses under patents except to the grantee's associated companies for so long as they remain associated companies.

Exhibit A

Table of Similar Consent Decrees

1. *U. S.* v. *Dymo Industries, Inc.* (DC Cal. 1967) 1967 Trade Cases ¶72,102 (Embossing tools and plastic tape)
2. *U. S.* v. *Driver-Harris Co., et al* (DC N.J. 1965) 1966 Trade Cases ¶71,658 (Electrical resistance materials and products)
3. *U. S.* v. *Becton, Dickinson and Co.* (DC N.J. 1964) 1964 Trade Cases ¶71,144 (Reusable hypodermic syringes)
4. *U. S.* v. *Borg-Warner Corp.* (SD Tex. 1962) 1962 Trade Cases ¶70,461
5. *U. S.* v. *Pitney-Bowes, Inc.* (DC Conn. 1959) 1959 Trade Cases ¶69,235 (postage meter machines)
6. *U. S.* v. *R. C. A.* (SD N.Y. 1958) 1958 Trade Cases ¶69,164 (Radio-television purpose apparatus)
7. *U. S.* v. *Robertshaw-Fulton Controls Co.* (WD Pa. 1957) 1957 Trade Cases ¶68,592 (Temperature controls for gas cooking ranges)
8. *U. S.* v. *International Cigar Machinery Co.* (SD N.Y. 1956) 1956 Trade Cases ¶68,426 (Cigar making machinery)
9. *U. S.* v. *Michigan Tool Co.* (ED Mich. 1956) 1956 Trade Cases ¶68,290 (Gear cutting and finishing machines)
10. *U. S.* v. *Logan Co.* (WD Pa. 1956) 1956 Trade Cases ¶68,375 (Sheet chargers)
11. *U. S.* v. *General Shoe Corp.* (MD Tenn. 1956) 1956 Trade Cases ¶68,271 (Shoe machinery)
12. *U. S.* v. *American Linen Supply Co.* (ND Ill. 1956) 1956 Trade Cases ¶68,542 (Towel dispensing cabinets)
13. *U. S.* v. *Crown Zellerbach Corp.* (ND Ill. 1956) 1956 Trade Cases ¶68,544
14. *U. S.* v. *I.B.M.* (SD N.Y. 1956) 1956 Trade Cases ¶68,245 (Business machines)
15. *U. S.* v. *General Railway Signal Co.* (WD N.Y. 1955) 1955 Trade Cases ¶67,992 (Grade crossing devices)
16. *U. S.* v. *Magcobar, Inc.* (SD Cal. 1955) 1955 Trade Cases ¶68,023 (Hydraulic oil well pumps)
17. *U. S.* v. *Servel, Inc.* (ED Pa. 1954) 1954 Trade Cases ¶67,665 (Absorption refrigerators).

18. *U. S.* v. *Eastman Kodak Co.* (WD N.Y. 1954) 1954 Trade Cases ¶67,920 (Color film processing)
19. *U. S.* v. *Cincinnati Milling Machine Co.* (ED Mich. 1954) 1954 Trade Cases ¶67,733 (Machine tools)
20. *U. S.* v. *Pittsburgh Crushed Steel Co.* (ND Ohio 1954) 1954 Trade Cases ¶67,892 (Metal abrasives)
21. *U. S.* v. *Food Machinery and Chemical Corp.* (ND Cal. 1954) 1954 Trade Cases ¶67,829 (Peach pitting machinery)
22. *U. S.* v. *Hunter Douglas Corp.* (SD Cal. 1954) 1954 Trade Cases ¶67,802 (Plastic tape)
23. *U. S.* v. *Bendix Aviation Corp.* (SD N.Y. 1953) 1952-1953 Trade Cases ¶67,591 (Hydraulic braking systems)
24. *U. S.* v. *Liquid Carbonic Corp.*, 1952-53 Trade Cases ¶67,248 (ED N.Y. 1952)
25. *U. S.* v. *Telescope Carts, Inc.* (WD Mo. 1953) 1952-1953 Trade Cases ¶67,573 (Telescope grocery carts)
26. *U. S.* v. *Bearing Distributors Co.* (WD Mo. 1953) 1952-1953 Trade Cases ¶67,595 (Tractor cabs)
27. *U. S.* v. *Davis Co.* (SD N.Y. 1952) 1952-1953 Trade Cases ¶67,403 (Plain knit elastic top hosiery)
28. *U. S.* v. *ASCAP* (SD N.Y. 1950) 1950-1951 Trade Cases ¶62,595 (copyrighted musical compositions)
29. *U. S.* v. *Automatic Sprinkler Co. of America* (ND Ill. 1948) 1948-1949 Trade Cases ¶62,230 (Automatic fire-fighting sprinklers)
30. *U. S.* v. *White Cap Co.* (ND Ill. 1948) 1948-1949 Trade Cases ¶62,268 (Closures for jars and containers)
31. *U. S.* v. *Libbey-Owens-Ford Glass Co.*, 1948-1949 Trade Cases ¶62,323 (ND Ohio 1948)

Order of Third Circuit Court of Appeals

It is ORDERED that appellant's MOTION FOR ORDER AUTHORIZING CLERK TO INCLUDE BRIEFS OF PARTIES IN CERTIFIED RECORD is denied. See, inter alia, Rules 21-1 and 23-3 of Rules of the Supreme Court of the United States.

By the Court,

/s/ FRANCIS L. VAN DUSEN,
Circuit Judge.

Dated: July 18, 1969.

Excerpts from Petitioner's Brief Below

STATEMENT OF THE ISSUES PRESENTED FOR REVIEW

1. Did the district court err in summarily dismissing for "lack of jurisdiction" the motion pleading by which this litigation was instituted?

2. Did the district court err in denying the timely request of appellant Components, Inc. (Components) to proceed with discovery and present evidence on the jurisdictional issue?

3. Did the district court err in dismissing Components' motion pleading for "lack of jurisdiction" on the basis of representations of appellee Western Electric Company, Inc. (Western) as corroborated by affidavits of Western's employees, while concurrently denying Components' request to elicit counterevidence in the form of apposite deposition testimony based on the relevant documents from Western's files? (pp. 1-2)

Excerpts from Respondent's Brief Below

STATEMENT OF THE ISSUES PRESENTED FOR REVIEW

1. Did the court below correctly determine:
   (a) that one *not a party* to a civil antitrust proceeding which resulted in a Final Judgment by consent must bring itself within the terms of that Judgment to make the application afforded therein to nonparties?
   (b) that Section X(B) of its Final Judgment entered on January 24, 1956, contemplates neither review of existing license agreements, nor resolution of disputes involving compensation for the past use of patents?
2. Did the court below correctly determine that a *nonparty* is not entitled to attack its license agreement with Western Electric as allegedly contravening the Final Judgment?
3. Did the court below correctly determine that a *nonparty* has no standing to obtain discovery?
4. Is this appeal so devoid of merit that it should be dismissed as frivolous? (p. 1)

* * * * *

Section X(B) of the Final Judgment is not a unique provision. There have been over thirty consent decrees entered since 1948 containing comparable provisions for the determination of reasonable royalties. (An enumeration of these decrees appears in Exhibit "A" annexed hereto.) (p. 7)

* * * * *

Components suggests that Western Electric injected a factual element into the jurisdictional issue when it filed certain affidavits in support of its memorandum in opposition to Components' motion for determination of reasonable royalties. However, these affidavits were in no way addressed to the jurisdictional issue. As stated in the court below, they merely served to deny the insinuations in Components' moving papers (which were served on the Department of Justice) that Western Electric had entered into "discriminatory" license agreements in violation of the provisions of the Final Judgment (A125). (p. 14)

LIBRARY
REME COURT, U. S.

FILED
AUG 2 9 1969
JOHN F. DAVIS, CLERK

IN THE

Supreme Court of the United States

October Term 1969

No. 398

UNITED STATES OF AMERICA,

Plaintiff,

—vs.—

WESTERN ELECTRIC COMPANY, INCORPORATED,

Defendant-Respondent,

—and—

AMERICAN TELEPHONE AND TELEGRAPH COMPANY,

Defendant.

COMPONENTS, INC.,

Movant-Petitioner.

BRIEF IN OPPOSITION TO PETITION FOR CERTIORARI

DONALD B. KIPP
JAMES C. PITNEY
Counsel for Respondent,
Western Electric Company, Incorporated

PITNEY, HARDIN & KIPP
570 Broad Street
Newark, New Jersey 07102

TABLE OF CONTENTS

	PAGE
The Opinion Below	1
Counterstatement of Question Presented	1
Counterstatement of the Case	2
A. The Antitrust Action and the Final Judgment	2
B. The Patent License Agreement and the Delaware Proceedings	4
C. The Proceedings Below	5
D. Lack of Participation by the Department of Justice	6
ARGUMENT	
I. No Question Is Presented Which Merits Review by This Court	7
II. The Determination of Both Courts Below Is Clearly Correct	9
CONCLUSION	12

TABLE OF AUTHORITIES CITED

Cases:

Application of Clark Walter & Sons, Inc., (D.C. N.J., Feb. 26, 1968, unreported), *aff'd*, 392 U.S. 659 (1968)	11
Magnum Co. v. *Coty*, 262 U.S. 159 (1923)	7

PAGE

Maul Bros., Inc. v. *Emhart Corp.*, 356 F. 2d 628 (6th Cir. 1966) 9

Rice v. *Sioux City Cemetery*, 349 U.S. 70 (1955) 7

United States v. *ASCAP*, 341 F. 2d 1003 (2d Cir. 1965), *cert. denied sub nom. Metromedia, Inc.* v. *ASCAP*, 382 U.S. 877 (1965) 11

United States v. *ASCAP*, 208 F. Supp. 896 (S.D.N.Y. 1962), *aff'd* 331 F. 2d 117 (2d Cir. 1964), *cert. denied* 377 U.S. 997 (1964) 9

United States v. *Libbey-Owens-Ford Glass Co.*, 1948-49 Trade Cases ¶62,323 (N.D. Ohio 1948) and 1955 Trade Cases ¶68,207 (N.D. Ohio 1955) 9

United States v. *Radio Corporation of America*, 186 F. Supp. 776 (E.D. Pa. 1960), *appeal dismissed per curiam, sub nom. Westinghouse Broadcasting Co.* v. *United States*, 364 U.S. 518 (1960) 11

Statutes:

15 U.S.C. §§1-3 2

15 U.S.C. §4 2

15 U.S.C. §16 2

Miscellaneous:

Rules of the Supreme Court of the United States, Rule 19 7

IN THE

Supreme Court of the United States

October Term 1969

No. 398

UNITED STATES OF AMERICA,

Plaintiff,

—vs.—

WESTERN ELECTRIC COMPANY, INCORPORATED,

Defendant-Respondent,

—and—

AMERICAN TELEPHONE AND TELEGRAPH COMPANY,

Defendant.

COMPONENTS, INC.,

Movant-Petitioner.

BRIEF IN OPPOSITION TO PETITION FOR CERTIORARI

The Opinion Below

The Opinion of the Court of Appeals for the Third Circuit (P 1a)[1] is reported in 409 F. 2d 1377.

Counterstatement of Question Presented

In a dispute over royalties owing under a license agreement for the past use of patents, should this Court review

[1] "P" refers to the Petition for Writ of Certiorari and the Appendix thereto.

the narrow question whether the licensee may invoke Section X(B) of the Final Judgment entered by consent in *U. S.* v. *Western Electric Company, Inc., et al.,* (D.N.J., Civ. Action 17-49, January 24, 1956) to obtain retroactive revision by court order of the royalty provisions of the agreement?

Counterstatement of the Case

This matter is before the Court on Petition for a Writ of Certiorari to review a determination of the Court of Appeals for the Third Circuit affirming an Order of the United States District Court for the District of New Jersey. Both courts held that jurisdiction had not been retained by the District Court in the Final Judgment entered herein on January 24, 1956, to consider the application made by the Petitioner, Components, Inc. Components was not a party to the proceedings which that Judgment concluded.

A. *The Antitrust Action and the Final Judgment.*

The action which resulted in the Final Judgment in question was instituted by the United States of America against Western Electric and American Telephone and Telegraph Company on January 14, 1949. The Complaint alleged violations of various provisions of the Sherman Act (15 U.S.C. §§1-3), and sought injunctive relief. The defendants filed their answer on April 27, 1949, denying the alleged violations. The Final Judgment entered on January 24, 1956, recited, consonant with Section 5 of the Clayton Act (15 U.S.C. §16), that it was entered on consent of the parties without trial or adjudication of any issues of fact or law, without constituting any evidence or admission by any party in respect of any such issues, and before any testimony was taken (A47).[2]

[2] Refers to the Appendix filed herein in the Court of Appeals.

Section X(A) of the Final Judgment requires the defendants to grant

> "to any applicant who shall make written application therefor at any time or from time to time, non-exclusive licenses * * * to make, have made, use, lease and sell any or all equipment as desired by the applicant, such licenses * * * (3) to be at reasonable royalties to all persons under all * * * future Bell System patents; * * *" (P 16a).

Section X(B) thereof provides in its entirety:

> "(B) Upon receipt of a written request for a license under the provisions of this Section, the defendant to whom such request is addressed shall advise the applicant in writing of the royalty, if applicable, which it deems reasonable therefor, and also of such licenses as defendants may specify under subsection (A) above. If the parties are unable to agree within ninety (90) days upon reasonable royalties or any other terms, the applicant or such defendant may apply to this Court for the determination of reasonable royalties and other terms, and the defendants shall, upon filing or receipt of notice of the filing of such application to this court, promptly give notice thereof to the plaintiff. In any such proceeding the burden of proof shall be on the defendant to establish the reasonableness of royalties or other terms requested by it, and on the applicant to establish the reasonableness of royalties or other terms requested by the applicant. Pending final determination of the foregoing, the applicant or said defendant may apply to this Court to fix interim royalty rates and other interim terms and conditions. If this Court fixes such interim rates, terms and conditions, such defendant shall then tender and the applicant may then

accept an agreement under which licenses shall be granted, in accordance with such interim determination, providing for the periodic payment of royalties, if applicable, at such interim rates for any manufacture, use, or sale under the patents involved. If the applicant fails to accept such license agreement or fails to pay interim royalties in accordance therewith such action shall be grounds for the dismissal of his application." (P 17a).

B. *The Patent License Agreement and the Delaware Proceedings.*

Components was organized early in 1960 (four years after entry of the Final Judgment) for the purpose of manufacturing and selling solid electrolytic capacitors. It applied to Western Electric that year for a patent license agreement. As Components' moving papers below disclose, "Following this application to Western Electric, extensive negotiations finally resulted in the consummation of a license agreement on June 1, 1960." (A41). Under the terms thereof Western Electric granted to Components nonexclusive licenses to produce capacitors under Bell System patents at stated royalties payable only if such patents are used in the licensed equipment (A13, 14, 16, 17).

Although Components has been manufacturing capacitors, it has never paid any royalties to Western Electric (A36). Components' counsel conceded in October, 1968, that its liability for the use of Bell System patents at that time "could exceed a couple of hundred thousand dollars." (A122). After fruitless efforts to persuade Components to pay the royalties which it believed to be owing, on May 24, 1968, Western Electric brought suit against Components in the Court of Chancery of the State of Delaware for an accounting.

C. *The Proceedings Below*

Instead of responding to Western Electric's Complaint in the Delaware action, Components sought to invoke Section X(B) of the Final Judgment in an effort to persuade the District Court for the District of New Jersey to assume exclusive jurisdiction of the dispute over unpaid royalties. On July 8, 1968, it filed what it called a "Motion for Determination of Reasonable Royalties". Its moving papers disclosed, *inter alia:* (1) that "extensive negotations" resulted in "consummation" of a license agreement between Western Electric and Components[3] (A41); (2) that Components, having become dissatisfied with the royalty provisions of that agreement, was seeking to have the District Court substitute other royalty provisions retroactively to cover Components' past use of Bell System patents (A41-2); and (3) that Components was endeavoring also to use the Final Judgment as a basis for ousting any other court, including the Delaware court, of jurisdiction to entertain an action by Western Electric on the contract (A45).

The District Court denied Components' motion for the reason that Section X(B) was inapplicable in the circumstances disclosed in Components' moving papers. It ruled that "The final judgment did not contemplate review of license agreements that were entered upon and retroactive considerations of reasonableness of royalties demanded in those agreements." (P8a). The Court of Appeals affirmed, observing *inter alia*:

> "* * * Since the language of Section X(B) postulates a 'written request for a license,' an 'applicant,' and circumstances where the parties are unable to agree

[3] On at least 25 occasions in its moving papers, Components expressly acknowledged that the 1960 license agreement had been "consummated", or referred to it as an "agreement". (A8, A39, A41, A42, A64, A97, A102, A106-10).

> • • • upon reasonable royalties or any other terms,' its language is clearly addressed to situations where the failure to conclude a licensing agreement warrants judicial determination of what its terms should reasonably be so that the parties may commence performance." (P3a-4a).

Contrary to Components' assertions (P24; also P3, 10, and 13), neither of the courts below assumed that the 1960 agreement is a valid, enforceable contract. The District Court specifically declined to pass on the validity of that agreement (A122-3, P8a). The Court of Appeals regarded the matter as "irrelevant", and assumed for the purpose of its determination "that the 1960 licensing agreement is unenforceable, as alleged in Components' application". (P2a-3a).

D. *Lack of Participation by the Department of Justice.*

The Department of Justice was notified of Components' motion.[4] It chose not to participate in either of the proceedings below, taking the position that "the dispute here appears to be essentially private in nature." (A130).

[4] See the notice requirement of Section X(B), *supra* p. 3.

ARGUMENT

I.

No Question Is Presented Which Merits Review by This Court.

The only question in this case is whether the courts below correctly construed Section X(B) of the Final Judgment herein as being inapplicable in a dispute over royalties due for the past use of patents under a license contract. Clearly this is not a question warranting this Court's attention.[5]

We are not concerned here with the interpretation or application of any federal statute. All that is involved is the correctness of the decree court's construction of its own decree. No significant federal question is even remotely involved. The dispute over royalties is strictly private in nature. For that reason, the Department of Justice declined to participate in the lower court proceedings. The ruling below does not conflict with any ruling of this Court, or with that of any other court. As will hereinafter appear, it is clearly correct.

Components has proffered four purported questions (P2) in a manner designed to make it appear that there may be something in this case which would warrant this Court's review. Apart from whether any of these questions would merit consideration by this Court, the record clearly demonstrates that none are really present in this case. There is no issue of subordinating federal antitrust and patent policy to state law, for all that was decided below was that the provision of the Final Judgment on which

---

[5] See Rule 19 of the Rules of this Court; *cf. Rice* v. *Sioux City Cemetery*, 349 U.S. 70, 73-74 (1955); *Magnum Co.* v. *Coty*, 262 U.S. 159 (1923).

Components relied did not permit the application which it sought to make. There is no issue whether antitrust consent decrees should be construed "fairly and reasonably" or "narrowly", because both Courts below decided that no reasonable construction supported Components' position. Furthermore, the District Court did not dismiss Components' claim for lack of jurisdiction after "having exercised jurisdiction to determine the merits of [that] claim." As the record shows, the District Court expressly declined to exercise jurisdiction to consider the merits (P8a-9a).[6] Finally, the record shows also that there is no basis for the purported question of whether allegations in an application allegedly made under the Final Judgment are entitled to be taken as true, "in the same manner as a complaint in an ordinary civil action", when the application is challenged as inadequate on its face. The ruling of each court below *was* based on the allegations of Components' own moving papers, as urged by Western Electric.

Nor does the fact that other consent decrees have provisions for court determination of reasonable royalties in stated circumstances warrant review of the ruling below. Apart from individual variations in these decrees, it does not appear that Components' proffered construction, or anything like it, has ever been urged upon any court, so that the ruling below presents no inconsistency with that of any other court. The fact that Components' strained and unsupportable contention was rejected below, of course, does not provide a suitable question for this Court's consideration.

---

[6] As respects the District Court's refusal to permit discovery on the jurisdictional issue, since Components was not a party to the Judgment and its own moving papers disclosed it had no standing to make the application it made, there was no basis for permitting the discovery it sought.

It is respectfully submitted that there is no occasion herein for the exercise by this Court of its certiorari jurisdiction.

II.

The Determination of Both Courts Below Is Clearly Correct.

It is clear that one who seeks judicial determination of reasonable royalties pursuant to a consent decree must bring himself within the terms of the particular decree provision on which he relies. *Maul Bros., Inc.* v. *Emhart Corp.*, 356 F. 2d 628 (6th Cir. 1966); *United States* v. *Libbey-Owens-Ford Glass Co.*, 1948-49 Trade Cases ¶62,323 (N.D. Ohio 1948) and 1955 Trade Cases ¶68,207 (N.D. Ohio 1955); *United States* v. *ASCAP*, 208 F. Supp. 896 (S.D. N.Y. 1962), *aff'd*, 331 F. 2d 117 (2d Cir. 1964), *cert. denied* 377 U.S. 997 (1964). As the Second Circuit reasoned in *ASCAP* (331 F. 2d at 123-4):

> "It is important to the obtaining of consent decrees, on which the effective enforcement of the antitrust laws depends in no small degree, that defendants who sign them should know these will not be stretched beyond their terms. Hughes v. United States, 342 U.S. 353, 357, 72 S. Ct. 306, 96 L. Ed. 394 (1952); United States v. Atlantic Refining Co., 360 U.S. 19, 23, 79 S. Ct. 944, 3 L. Ed. 2d 1054 (1959)."

Section X(B) of the Final Judgment herein provides in relevant part:

> "(B) Upon receipt of a written request for a license * * * the defendant * * * shall advise the applicant in writing of the royalty, * * * which it deems reasonable therefor, * * *. If the parties are unable to agree

> within ninety (90) days upon reasonable royalties * * *, the applicant * * * may apply to this Court for the determination of reasonable royalties * * *. Pending final determination of the foregoing, the applicant * * * may apply to this Court to fix interim royalty rates * * *. If this Court fixes such interim rates, * * * such defendant shall then tender and the applicant may then accept an agreement under which licenses shall be granted, in accordance with such interim determination, providing for the periodic payment of royalties, * * * at such interim rates * * *. If the applicant fails to accept such license agreement or fails to pay interim royalties in accordance therewith such action shall be grounds for the dismissal of his application."

It is clear that Section X(B) gives only an "applicant" for a patent license the right to apply to the District Court for a determination of reasonable royalties, that it is a prerequisite to such an application that the parties be "unable to agree" on reasonable royalties, and that even where these conditions are met that court has retained jurisdiction only to determine reasonable royalties for the future use of the licenses to be granted. Components met none of these conditions, since it admittedly executed the license agreement in question and was asking the District Court to determine reasonable royalties not for the future but for its past use of Bell System patents pursuant to its licenses.[7] Each of the courts below correctly regarded

[7] In its petition Components argues for the first time that Section X(A) of the Final Judgment gives it the right to make application for a court determination of reasonable royalties "at any time". However, language in Section X(A) which Components slights makes it clear that this section refers only to the right to apply for a patent license "at any time" and has nothing to do with the matter of seeking a court determination of reasonable royalties for such a license—a matter governed exclusively by Section X(B) in which the language "at any time" does not appear.

as irrelevant to its determination the matter of whether Components might or might not have valid defenses to Western Electric's suit on the license contract.[8]

Components executed a patent license agreement with Western Electric and for many years manufactured and sold equipment allegedly using inventions of Western Electric's patents. When sought to be held to account, it attempted to use Section X(B) of the Final Judgment as a basis for asking the District Court to relieve it of its contractual royalty obligations and to substitute new royalty provisions retroactively. The District Court correctly decided that it had no jurisdiction to entertain Components' request; and the Court of Appeals correctly affirmed that determination.[9]

---

[8] Components apparently suggests (P. 20-1) that it should have been afforded the right to attack Western Electric's "licensing practices" as "discriminatory" in contravention of the Final Judgment. Components, which was not a party to the Judgment, had no standing to invoke the jurisdiction of the District Court for the purpose of reviewing Western Electric's compliance with it. This was settled by a recent ruling under the Final Judgment in this case. *Application of Clark Walter & Sons, Inc.*, (D.C.N.J., Feb. 26, 1968, unreported), *aff'd*, 392 U.S. 659 (1968). See also *United States* v. *ASCAP*, 341 F. 2d 1003 (2d Cir. 1965), *cert. denied sub nom. Metromedia, Inc.* v. *ASCAP*, 382 U.S. 877 (1965); *United States* v. *Radio Corporation of America*, 186 F. Supp. 776 (E.D. Pa. 1960), *appeal dismissed per curiam sub nom. Westinghouse Broadcasting Co.* v. *United States*, 364 U.S. 518 (1960).

[9] The District Court's dismissal of Components' application was "without prejudice" to its right to invoke Section X(B) for a determination of future royalty obligations in the circumstances contemplated by that decree provision (P8a-9a). This right was also recognized by the Court of Appeals (P4a).

CONCLUSION

The Petition for Certiorari should be denied.

Respectfully submitted,

DONALD B. KIPP /
JAMES C. PITNEY
Counsel for Respondent
Western Electric Company, Incorporated

Dated: August 29, 1969.

IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1969

No. 398

COMPONENTS, INC., *Petitioner,*

v.

WESTERN ELECTRIC COMPANY, INCORPORATED
Respondent.

REPLY BRIEF IN SUPPORT OF PETITION FOR CERTIORARI

This petition presents questions of importance to the administration of the antitrust and patent laws which have not been, but should be answered by this Court.

Respondent (Western Electric Co.) is bound by a typical consent decree which requires it to grant licenses under its patents to "any applicant . . . at any time" at "reasonable royalties" which must be "nondiscriminatory as between licensees". Royalty provisions adjusted to reflect a "bona fide estimate" of the value of a license which respondent may receive in "exchange" for a license granted under its own patents "shall not be deemed to discriminate between licensees". If respondent Western and a license applicant (*i.e.*, petitioner, Components, Inc.) are "unable to agree within ninety (90) days upon reasonable royalties or other terms, the applicant [Components] . . . may apply to [the

decree] Court for the determination of reasonable royalties and other terms".[1]

The decision below condones procedures invoked by Western—including the invocation of *state* law—to circumvent the consent decree and to deprive Components of important rights which the decree insures.

Thus Western, operating under the decree *as it has been construed below,* effectively utilizes its mass of patents to control competition by (a) granting a license at a "standard . . . royalty" established pursuant to the "policy of Western Electric", (b) "estimating" *unilaterally* the adjustments in the "standard" royalty which in Western's *sole* judgment are necessary to render the royalty rate "reasonable" and "nondiscriminatory", (c) informing its licensees of these adjustments by letters which are said to constitute unilateral "amendments" to the "standard" license and (d) *if necessary,* suing the licensee in a *state* court for an accounting on the "amended" license contract to collect the *"adjusted"* royalty.[2]

The *necessity* for state court contract litigation arises, *as it did here,* in the event that Western's *unilateral* "adjustment" is disputed and the licensee refuses to pay the adjusted rate, *electing instead, to exercise its rights guaranteed by the consent decree to request the determination of a reasonable royalty*—NOT BY WESTERN—BUT BY THE DECREE COURT.

Western's arguments opposing the petition emphasize the insidious nature of its successful scheme for subversion of the decree to which it is subject. To camouflage the fundamental issues raised by the petition, respondent represents that this case involves merely a "dispute over royalties due . . . under a license contract" (Opp. 7), executed June 27, 1960, and effective June 1, 1960 (presumably granting Com-

---

[1] The quotations are from Sections X(A), (B) and (C) of the consent decree which appear at Pet. 16a *et seq.*

[2] See, *inter alia,* Pet. 19-20 and the affidavit of H. S. Wertz, Patent Licensing Director of Western Electric (App. 80).

ponents a "nondiscriminatory license" to manufacture solid electrolytic capacitors for a "reasonable royalty" of 4½%), that Components "was endeavoring . . . to use" the consent decree "as a basis for ousting . . . the Delaware court, of jurisdiction to entertain an action by Western Electric on the contract" (Opp. 5) and that "When sought to be held to account" Components "attempted to use" the decree "as a basis for asking the District Court to relieve it of its contractual royalty obligations . . ." (Opp. 11).[3]

At no place in its "Opposition" does Western advise this Court that it has repudiated the agreement effective "on June 1, 1960" (Opp. 4) with its *per se* UNREASONABLE and discriminatory *4½% royalty provision*—or that it is *not* that "agreement" which Western seeks to enforce in its Delaware accounting action.

In the Delaware court, Western has answered petitioner's Interrogatory 2 as follows:

> "Q. 2 Is Plaintiff in this action seeking to enforce the royalty rate of four and one-half percent (4½%) as set forth in the alleged 'License Agreement' executed on or about June 27, 1960 with respect to any solid electrolytic capacitors manufactured, used or sold by defendant.
>
> "A. 2 No."[4]

---

[3] The "Brief in Opposition to Petition for Certiorari" is cited "Opp. —".

[4] This admission by Western emphasizes the error in the district court's denial of Components' timely request to conduct discovery on the "jurisdictional" issue. *Cf.* Question 3, Pet. 2.

Instead, the district court, *construing* the decree, and in ignorance of the facts, erroneously held that

> ". . . the final judgment was not designed to be used in the manner that Components now urges. . . . Here *an agreement* was reached in 1960 and Components seek to use this action to secure . . . a retroactive reduction of royalties . . ."
>
> . . . . . .
>
> "The action will be dismissed for lack of jurisdiction. . ." (Pet. 8a-9a)

Had the district court permitted discovery on the jurisdictional issue, as it should have, Western's own repudiation of the agreement "reached

Tacitly admitting that the 4½% royalty is UNREASONABLE *and discriminatory* Western seeks *in Delaware* to enforce only the two alleged letter "amendments" which Components never accepted (Pet. 7).[5] By these unilateral "amendments" Western undertook to change the unreasonable and discriminatory 4½% royalty to lower rates which Western —equally unilaterally—concluded *were* in accord with the decree.[6]

In the Delaware action for an accounting, Western has said that these letters are "unilateral undertakings" "in the nature of waivers"; that they "impose new obligations upon Western which form a part of the contract between the parties" and that "they did not, of course, contemplate or require any agreement or acceptance by Components" (p. 3) "because the amendatory documents [the "unilateral undertaking" letters] do not purport to modify any of Componnets' 'contract *rights*' " (p. 8) or "impose additional obligations upon Components" (p. 10), and "therefore no assent by [Components] is required" (p. 8) and the consent decree "is irrelevant" (p. 11).[7]

Disagreement between the parties as to the propriety of the royalty rates as set forth in Western's "unilateral undertakings" led to (a) the institution of the Delaware

---

in 1960" would have been exposed and dismissal on the "jurisdictional" ground stated by the court would *not* have been possible. *Cf.* Opp. 8, n. 6.

This interrogatory answer was served in the Delaware accounting action after the petition was filed. Note 5, page 6 of the petition is in error to the extent that it implies that Western is attempting to enforce the 4½% royalty.

[5] "Components, Inc. has never accepted the reduced royalty rates as unilaterally proposed" (Par. 8 of the "Motion of Components, Inc. for Determination of Reasonable Royalties", Pet. 13a).

[6] These unilateral "amendments" were in the form of letters from Western to Components, dated December 4, 1963 and October 4, 1965. Pertinent portions of these letters are reproduced at Pet. 7, n. 6.

[7] The quotations are from "Plaintiff's [Western's] Answering Brief In Opposition to Defendant's [Components'] Motion to Dismiss" filed September 11, 1969 in CA 2820 pending in the Court of Chancery for the State of Delaware.

accounting action *by Western* and (b) the application for a determination of reasonable royalties in the decree court *by Components.*

The court below held (a) that the existence of the 1960 license "agreement" is a *jurisdictional bar* to Components' exercise of the rights conferred by the consent decree, including the *right* to a reasonable royalty determination, and (b) that "it would appear unwise, for reasons of sound judicial administration and 'a proper regard for the autonomy of the states,' to preempt that previously filed state action" (Pet. 4a-5a).

The court below seemingly overlooked the fact that Western by its "state action" has deprived Components of the rights guaranteed by the antitrust decree (a) to have the alleged June 1, 1960 agreement with its unreasonable and discriminatory 4½% royalty provisions declared invalid or unenforceable for noncompliance with the decree's mandate and (b) to have a reasonable royalty determined, NOT by Western *but by the* DECREE *court.*

The court below has erroneously permitted the "state action" to preempt and subvert federal antitrust and patent policy as embodied in the decree. And it has done so by adopting Western's own *narrow* construction successfully calculated to insure federal court endorsement of its scheme to circumvent the decree's provisions in derogation of the public interest.

Thus questions "1" and "2" presented by the petition (p. 2) are at the heart of this case. It is believed that these questions should be considered now if the decision below is not to stand as an open invitation to others subject to similar antitrust judgments to subvert their mandate in the manner successfully invoked by Western.

Respondent says that "both courts below decided that no reasonable *construction* [of the decree] supported Components' position" (Opp. 8)—and hence *acknowledges* that both courts *exercised their jurisdiction* to construe the

decree.[8] *A fortiori* the dismissal for "lack of jurisdiction" *conflicts directly* with the controlling decisions of this Court cited at page 23 of the petition. While these decisions and the rule they enunciate were strongly urged below,[9] they were "overruled" *sub silentio* by the appellate court *as a necessary step to the result reached.* The situation is aggravated by the court's refusal to permit Components discovery on the jurisdictional issue.[10] Question 3 on the petition (p. 2) is a substantial paraphrase of one of the express questions presented to the court below (Pet. 23a) and is squarely raised on the record of this case. *The fundamental issue presented is whether the lower courts may with impunity ignore the controlling decisions of this Court as an expedient means for reaching a result otherwise foreclosed.* If this Court's pronouncements *had* been followed, there could have been *no* dismissal for "lack of jurisdiction".

Arguing that the decision below is correct, Western advances the truism that one who seeks jurisdictional determination of reasonable royalties pursuant to a consent decree must bring himself within the terms of the decree provisions upon which he relies (Opp. 9). Definitely, Components' motion pleading includes allegations which, if proved, satisfy that prerequisite. If accepted as proved as they should have been by the courts below, summary

---

[8] Respondent's assertion in the very next sentence of its opposition that "the District Court expressly declined to exercise jurisdiction to consider the merits (P8a-9a)" (Opp. 8) is deceptive. The district court *refrained* "from any comment" on *"the validity of the contract"* between Components and Western—not *on the merits of the claim asserted by Components* that it was entitled to a reasonable royalty determination by the decree court.

[9] See the "Petition for Rehearing", p. 1. The same point was urged on the basis of the same authority in both of petitioner's briefs below.

[10] See note 4, *supra*, p. 3. Respondent's note 6, p. 8, begs the question. The reasonable royalty determinations of paragraph XB of the consent decree were, of course, included for the very purpose of permitting applicants "not a party to the judgment" to exercise the rights therein provided.

dismissal would have been precluded. *Cf.* Pet. 2, Question 4.[11]

Further endeavoring to support the decision below, Western argues, as it did before the appellate court, that it is a prerequisite to an application for reasonable royalties under paragraph X(B) of the decree that the parties be "unable to agree" and that even where these conditions are met, the decree court has retained jurisdiction only to determine reasonable royalties "for the future".

As to the first point of Western's argument, Western definitely is *not* attempting to enforce the 4½% royalty provision upon which the parties "agreed" in 1960. Instead Western is trying to enforce *different* royalty provisions upon which the parties have, in fact, been "unable to agree". Western's final point is inconsistent with the express language of paragraph X(A) of the decree itself which expressly orders Western to grant licenses under its patents to "any applicant . . . at any time" [12]

Application of Clark Walter & Sons, Inc., D.C. N.J., Feb. 26, 1968, unreported, *aff'd* 392 U.S. 659 (1968), is miscited by Western (Opp. 11, n. 8). *Clark Walter* is an intervention case under Federal Civil Rule 24 by which the would-be intervenor sought to enforce the provisions of the consent decree itself against Western. This circumstance has no relation to the facts which prevail here, to wit, Components' refusal to accept as a bar to its right to exercise the reason-

---

[11] Significant in this regard is the refusal of both courts to accept the averments of Components' pleading that the *June 1, 1960 agreement* was void or unenforceable and could *not* be raised as a bar to Components' reasonable royalty application. It now appears from the discovery so far completed in the Delaware state court—but denied by the decree court—that these averments *are true*. Indeed, Western is not even attempting to enforce the illegal "June 1, 1960 agreement". See p. 3, *supra*.

[12] Western's attempt (Opp. 10, n. 7) to suggest that this language is inapposite because it "does not appear" in paragraph X(B) must fail. Paragraphs X(A) and X(B) must be read together. Paragraph X(A) orders Western to grant licenses "to any *applicant* . . . at any time". Paragraph X(B) provides that if the parties are unable to agree upon the terms of the license under Western's patents, "*applicant* . . . may apply to the [decree] Court for the determination of reasonable royalties".

able royalty determination provisions of Section X of the consent decree, the admittedly illegal 4½% royalty contract which Western wrongfully induced it to "accept" in 1960.

As noted in the petition, Western's insistence—and the lower court's rulings—that this illegal 1960 contract forecloses Components' rights under the decree is in fact a determination that Western, having induced Components to sign a contract in derogation of the decree, can now impose that illicit agreement as a bar to the very relief which the subverted decree authorizes. *Cf.* Pet. 21.

CONCLUSION

It is respectfully requested that the petition be granted.

Respectfully submitted,

GENE W. STOCKMAN
1000 Connecticut Avenue, N.W.
Washington, D. C. 20036
Attorney for Petitioner
Components, Inc.

Of Counsel:

FRANK A. STEINHILPER
Rosen & Steinhilper
200 Boylston Street
Chestnut Hill, Mass. 02167